SaskPower

By any measure, 2001 was an extraordinary year – complete with successes, *challenges* and growth.

2001 ANNUAL REPORT

About us: SaskPower is the principal supplier of electricity in Saskatchewan. Founded as the Saskatchewan Power Commission in 1929, our mandate is to deliver safe, reliable, cost-effective power to the residents of Saskatchewan. SaskPower was created as a provincial Crown corporation in 1950 and is governed by the province's Power Corporation Act.

SaskPower maintains more than 150,000 kilometres of power lines and our available capacity is approximately 3,100 megawatts (MW). This includes 2,880 MW of supply generated by our own facilities – three coal-fired stations, seven hydro stations and four natural gas stations – and our 25-year power purchase agreement with the Meridian cogeneration facility at Lloydminster.

Our 2,300 employees work in three business units (Power Production, Transmission and Distribution, and Customer Services), five corporate groups (Corporate and Financial Services; Corporate Information and Technology; Human Resources; Planning, Environment and Regulatory Affairs; and the President's Office) and three subsidiaries (NorthPoint Energy Solutions Inc., Power Greenhouses Inc. and SaskPower International Inc.).

Our vision: Excelling in competitive energy markets. **Our mission:** We provide value-added electrical energy and related services. We achieve this through employee innovation, a competitive spirit and pursuing opportunity for our customers and shareholders. **Our values:** We are committed to the principles of respect, integrity and openness in our relationships with our employees, customers and others. We value a safe and healthy workplace, clear and open communication, the diversity of our workforce, continuous learning by our employees, innovative thinking and solutions, public safety, the environment and community relationships.

102-04552/

Operating Profile

Customers

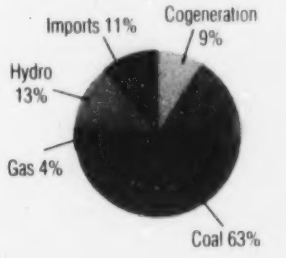
(Meters in service on December 31, 2001)

	Number of Customers	% of Total Customers	% of Total kW.h
Residential	301,165	69.7	15.0
Farm	67,551	15.7	8.6
Commercial/Industrial	62,377	14.4	68.3
Streetlights	966	0.2	0.3
Reseller & Export	5	–	7.8
Total	432,064	100.0	100.0

Transmission and Distribution		
230 kV	– circuit kilometres	3,684
138 kV	– circuit kilometres	4,274
115 kV	– circuit kilometres	400
110 kV	– circuit kilometres	190
72 kV	– circuit kilometres	4,386
72 kV	– underground kilometres	7
25 kV	– pole kilometres	23,195
25 kV	– underground kilometres	789
14.4 kV	– pole kilometres	72,360
14.4 kV	– underground kilometres	43,116

SaskPower's service area is 526,600 square kilometres

2001 Generation and Purchased Power by Type (%)



Five-Year Operating Summary	2001	2000	1999	1998	1997
Sales (GW.h)	**16,899**	17,049	16,210	16,187	15,608
% growth over prior year	**(0.9)**	5.2	0.2	3.7	3.6
Average annual usage per residential customer (kW.h)	**7,945**	7,784	7,793	7,662	8,520
Average urban monthly residential bill before taxes ($)	**61**	61	59	59	61
Seasonal gross system peak load (MW)	**2,831**	2,962	2,853	2,944	2,944
Total customers served at year-end	**432,064**	431,360	428,027	426,676	423,678
Power lines (overhead and underground km)	**151,750**	151,247	150,656	150,001	149,421

Generation Statistics

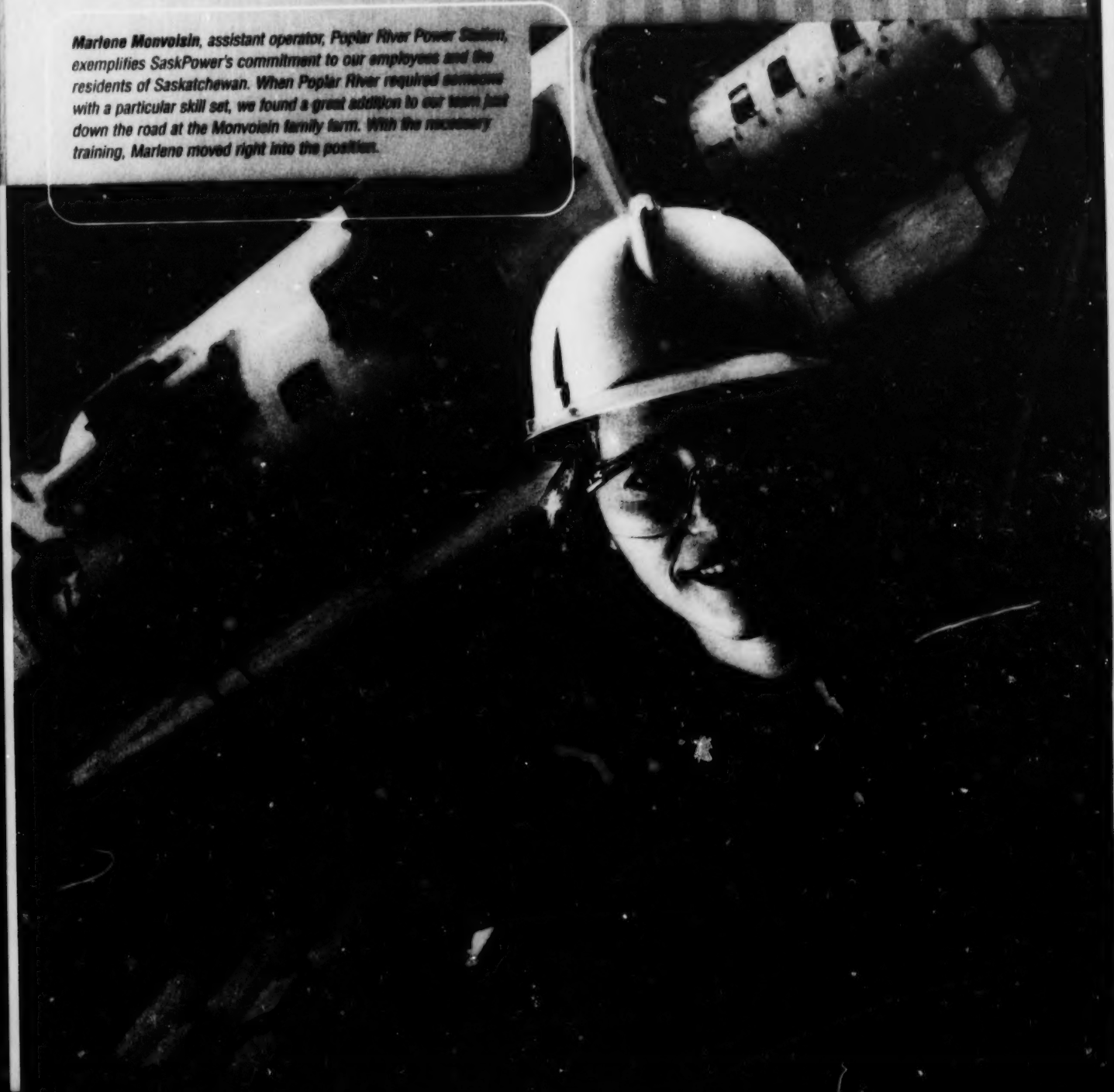
Source	2001 Rated Capacity (Net Megawatts) *at December 31, 2001*	2001 Net Energy (GW.h)
Coal	1,653	11,711
Gas	374	798
Hydro	853	2,391
Generated Energy	2,880	14,900
Purchased Energy		3,818
Total		18,718
Total Energy		18,718
Less Losses & Other		(1,819)
Total Energy Sold		16,899
Energy Sold		
To Customers		15,954
To Export Markets		945
Total Energy Sold		16,899

Annual Peak Load (net) 2,691 MW (2001-01-15 18:13)

Minimum Load (net) 1,456 MW (2001-07-02 06:00)

Summer Peak Load (net) 2,515 MW (2001-08-23 14:37)

Training and *recruiting* initiatives ensure that SaskPower has highly skilled people, today and tomorrow.



***Marlene Monvoisin**, assistant operator, Poplar River Power Station, exemplifies SaskPower's commitment to our employees and the residents of Saskatchewan. When Poplar River required someone with a particular skill set, we found a great addition to our team just down the road at the Monvoisin family farm. With the necessary training, Marlene moved right into the position.*

Minister's Letter

Regina
March 2002

To Her Honour
The Honourable Lynda Haverstock
Lieutenant Governor of the
Province of Saskatchewan

Madam:
I have the honour to submit herewith the Annual Report of Saskatchewan Power Corporation for the year ended December 31, 2001. This report includes the financial statements for the year in the form approved by the Treasury Board, duly certified by the auditors of Saskatchewan Power Corporation, all in accordance with The Power Corporation Act.

I have the honour to be, Madam, your obedient servant,

Maynard Sonntag
Minister Responsible
Crown Investments Corporation of Saskatchewan

DAVID T. BARNARD

Strategic planning and development drives SaskPower's *business* at every level, from corporate to operational.

Chair's Message

SaskPower is an integral part of the quality of life we enjoy in Saskatchewan and the corporation has met the challenge of supplying electricity to the province since 1929. SaskPower employees demonstrated their ongoing resolve and commitment as drought and rising fuel and purchased power costs brought severe financial challenges to the corporation in 2001.

In consultation with the Board of Directors, SaskPower worked diligently to manage the impact of low water levels and high fuel costs. These issues will continue to challenge us in 2002, as water levels are expected to take at least a year to recover. The corporation's financial performance will also recover over time, but it will depend to a major degree on external factors, which are beyond SaskPower's control, in addition to the corporation's ability to plan and deliver its business strategy.

Strategic planning and development drives SaskPower's business at every level, beginning with the corporate strategic plan and business plan and extending through to the operational plans and budgets of each work area. Among our responsibilities, the Board provides leadership in setting the corporation's long-term strategic direction and we approve the strategic plan, business plan, operating goals and budget, and performance indicators. To provide a balanced picture of SaskPower's performance, management reports on four types of measures – financial, operating/process, market and public policy/employees – using the corporation's scorecard process.

The investments SaskPower is making in natural gas-fired supply will diversify the corporation's generating mix and provide customers with safe, reliable, cost-effective electricity from an environmentally progressive source.

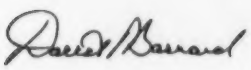
SaskPower is committed to the highest standards of environmental management and continues to be proactive on the climate change issue. In 2001, the Board reaffirmed SaskPower's commitment to greenhouse gas mitigation in a detailed review of the corporation's greenhouse gas reduction strategy.

From achieving greater efficiencies in its operations and participating in research and development initiatives to identifying opportunities to offset greenhouse gases from electricity generation, SaskPower's voluntary, proactive approach to climate change reflects its efforts to balance Saskatchewan's energy needs with a sustainable environment.

Teamwork and leadership are essential to SaskPower's success and the work of our Board. In 2001, we mourned the passing of J. Milton Fair, who provided exemplary leadership in his role as Board Chair. Mr. Fair joined the Board in January 1998, bringing with him a keen focus on teamwork, extensive knowledge of business issues and strategy, and a continuing commitment to excellence. He was a valued member of our Board and we appreciate his significant contributions to our work and to SaskPower.

I thank Colleen Bailey, Vernon Bellegarde and Donald Mintz for the commitment and expertise they brought to their terms on the Board. I'm pleased to welcome our newest Board member, Al Macatavish, and look forward to Marty Klyne, Deb Schmidt and Janet Wightman joining the Board in January 2002.

As the province's largest Crown corporation and one of its major employers, SaskPower has powered opportunities in Saskatchewan for more than 70 years. On behalf of the Board, I offer my thanks to SaskPower's employees and executive team for their efforts to build on that proud legacy.



David T. Barnard
Chair, SaskPower Board of Directors

JOHN WRIGHT

We're focused on *strengthening* our core business – delivering safe, reliable, cost-effective electricity.

President's Message

It's been a difficult year. In 2001, we faced rapidly rising fuel costs, volatility in natural gas pricing and the impact of a prolonged prairie drought, and emerged at year-end with a consolidated net income of $29 million, down $79 million from 2000.

It's a result we didn't want to see. Over the previous five years, we had recorded strong profits, reduced our debt and maintained a rate freeze for our residential and farm customers.

The increasing cost of doing business – including maintenance of aging facilities and infrastructure and upward pressure on all expense categories, particularly fuel and purchased power – began to affect our bottom line in 2000.

Our financial situation worsened in 2001. Extremely low water flows reduced our ability to generate cost-effective hydroelectricity and our fuel and purchased power costs soared with the increased volume we were buying to meet the shortfall. Rising natural gas prices placed additional pressure on our fuel and purchased power costs. We couldn't change drought conditions or the price of natural gas, but we reviewed every aspect of our operations that we could control to identify potential savings without compromising service delivery to our customers.

Although this intensive effort to reduce our operating, maintenance and administration costs resulted in cost savings, it could not offset the financial impact of rising fuel costs. We submitted a rate proposal to the Saskatchewan Rate Review Panel in the fall of 2001 – our second in the span of a year. Our first

application resulted in a system-average increase of two per cent effective April 1, 2001, SaskPower's first system-wide rate increase since 1994 and the first to affect residential customers since 1996.

In December 2001, the Government of Saskatchewan announced that it had accepted the recommendations of the Saskatchewan Rate Review Panel regarding our second proposal. A system-average increase of 4.5 per cent (including contract customers) took effect in January 2002, and will increase our revenue by $47 million annually.

The rate changes address two issues. First, they recover increased costs to some degree. Second, they reflect SaskPower's rate rebalancing effort. Cross-subsidization was necessary as we built our system, particularly the rural network, but our focus today is to ensure that the rates we charge to our various customer classes more closely reflect the actual cost of service. This will help strengthen SaskPower's position in a marketplace that will become more open and competitive over time.

As we move forward, our focus will be to strengthen our core business – delivering safe, reliable, cost-effective electricity to our customers. We'll also be making significant investments for the future as we develop supply solutions, maintain the reliability of our network and address environmental challenges.

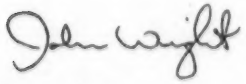
We'll be guided by our strategic priorities – to live our values, excel in customer service, manage our business profitably and grow through new business opportunities. As a team, we're positioned for progress. We have new three-year collective agreements in place with our business partners – the Communications, Energy and Paperworkers (CEP) Local 649 and the International Brotherhood of Electrical Workers (IBEW) Local 2067 unions. A tentative agreement was reached with the IBEW prior to the expiry of the old agreement, an achievement that represents our shared commitment to strengthen this valued partnership.

New roles and responsibilities among the SaskPower executive team will benefit our business while enabling our senior leaders to enhance their skills through new opportunities. We provide strategic training and development opportunities for employees and we're furthering our efforts to help staff balance their work and family commitments, including reaching an agreement with the CEP to provide family leave days commencing in 2002.

The safety of our employees remains our priority, whether they're working at power stations, maintaining power lines, serving our customers or enjoying time at home with family and friends. We were saddened in 2001 by the tragic death of one of our employees, Jim Chase, who suffered a fatal injury while attending to an outage on a farm near Ponteix. As we grieve his loss, we affirm SaskPower's commitment to continue working with employees to ensure the safest possible workplace. We dedicate this annual report to his memory.

In addition to our occupational health and safety initiatives, our Corporate and Financial Services group implemented new security policies and procedures in 2001 to enhance the safety of employees.

Moving forward from one of the most difficult years in our history, I commend our employees and the Board of Directors for their hard work to position SaskPower for the future. In this annual report on the state of our business, you'll learn how we met the challenges of 2001 while continuing to build on SaskPower's vision – to excel in competitive energy markets.



John Wright
President and Chief Executive Officer

Supplying our Customers

Our challenge – and our commitment – is to deliver safe, reliable, cost-effective power to our customers.

In Saskatchewan, that means moving electricity over a large, sparsely populated province. We've built the most extensive network of power lines in Western Canada – 151,000 kilometres and growing – to reach our 432,000-plus customers. We serve about three customers per circuit kilometre, while most utilities average about 12 customers over the same distance.

Every day, our 2,300 employees meet the numerous challenges of service delivery, from working around the clock at our power stations to maintaining our aging infrastructure. In 2001, staff also dealt with the impact of a severe drought as low water flow greatly reduced our hydro output and we were faced with rapidly rising fuel and purchased power costs.

Key to those rising costs was the price of natural gas. Although natural gas is a higher-cost fuel than coal or hydro, it's an environmentally responsible fuel that makes good business sense. When all related costs are considered, gas-fired facilities are an economical option as they produce fewer greenhouse gas emissions than coal-fired power stations.

We considered these advantages in our supply planning and have taken steps to expand SaskPower's natural gas supply options in recent years. In addition to our four gas-fired power stations, we have a long-term purchase agreement with the Meridian Cogeneration Project in Lloydminster, in operation since early 2000, and two additional natural gas facilities will be in operation in 2002.

The 228-MW Cory Cogeneration Station is a joint venture of SaskPower International, our development arm, and ATCO Power of Alberta. The $234-million project is under construction at the Potash Corporation of Saskatchewan (PCS) Cory mine site near Saskatoon. The cogeneration process will burn natural gas to simultaneously produce electricity and steam. SaskPower will buy the electricity and the steam will be sold to PCS-Cory for its use – a business solution that offers both economic and environmental benefits.

We're also repowering our Queen Elizabeth Power Station in Saskatoon with six 25-MW combustion gas turbines. Hitachi is assembling the new turbines in their Saskatoon factory, a first for Saskatchewan. Waste exhaust heat from the turbines will produce steam for the power station's existing steam turbines. The combined-cycle technology of this $140-million repowering project will improve our natural gas mileage, enabling us to increase generation while using about one-third less fuel than either the original steam plant or a gas turbine operating alone. This drop in fuel consumption means lower fuel costs and a reduction in greenhouse gas emissions, for greater output.

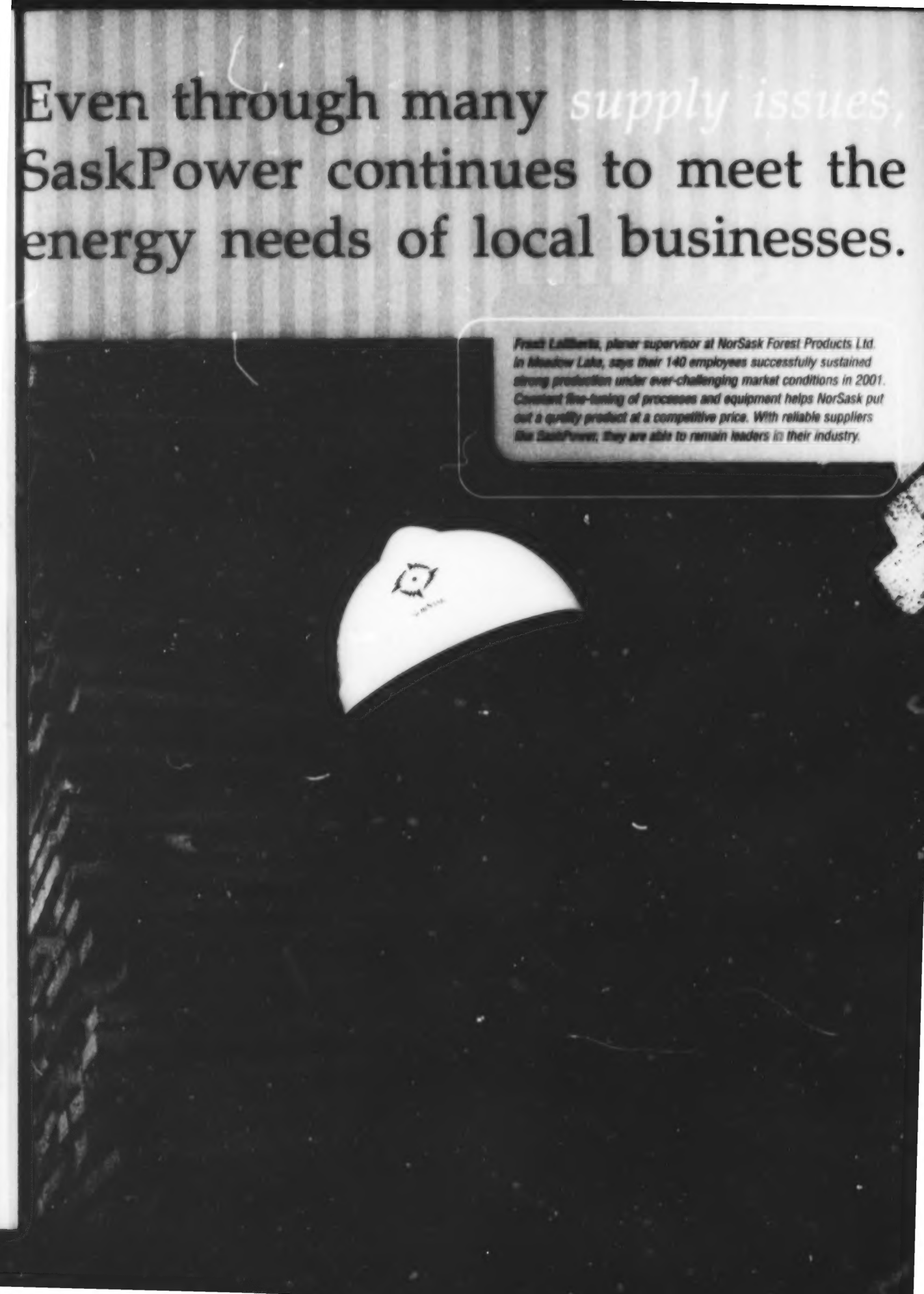
In total, the Cory and Queen Elizabeth projects will add almost 380 MW of efficient, environmentally progressive generation to our system when they come on-line in 2002, helping to meet Saskatchewan's demand for electricity in the immediate future.

Green power – electricity generated from renewable and environmentally friendly resources such as wind, solar, biomass, small cogeneration and flare gas sources – will be an important part of our future.

We're purchasing the green power generated by the Sunbridge Wind Power Project, an 11-MW joint venture from Suncor Energy Inc. and Enbridge Inc. that was built near Gull Lake. We're also building our own 5.9-MW wind power project to help meet the future demand for green power. We plan to have that project operational in the fall of 2002.

Commitments are in place for the federal and provincial governments, as well as our head office in Regina, and interested customers will be able to purchase green power beginning in 2002. We'll be negotiating contracts for commercial and industrial users, and retail customers will be able to buy a block of green power in addition to their normal electricity consumption.

Even through many supply issues, SaskPower continues to meet the energy needs of local businesses.



Franz Laliberte, planer supervisor at NorSask Forest Products Ltd. in Meadow Lake, says their 140 employees successfully sustained strong production under ever-challenging market conditions in 2001. Constant fine-tuning of processes and equipment helps NorSask put out a quality product at a competitive price. With reliable suppliers like SaskPower, they are able to remain leaders in their industry.

We advanced other initiatives in 2001 involving renewable energy, including pilot projects that use alternative technologies such as solar energy, flare gas and biomass. Our projects include a solar demonstration project at the Saskatchewan Science Centre in Regina that educates visitors about electricity and environmental issues. We also joined forces with SaskEnergy and Flatland Exploration Ltd. on a pilot project near Carlyle to generate electricity by burning flare gas from oil wells.

Projects like these offer important learning opportunities as we consider the potential for distributed, or small scale, generation in the marketplace. Over time, our challenge will be to develop cost-effective applications for these alternative technologies.

As we research the potential for new supply solutions, we also focus on optimizing our present generating assets. Each of our natural gas, coal-fired and hydro power stations has an important role in meeting our customers' demand for electricity. Some supply base-load power 24 hours a day. Others come on-line during peak periods like suppertime. It's critical that each power station in our system is well maintained and each year, we schedule preventive maintenance to keep our stations running efficiently.

Our Power Production team continued to improve our maintenance processes in 2001. With support from the plant maintenance system in SaskPower's SAP (Systems, Applications, and Products in Data Processing) software, we're scheduling and completing work efficiently and on time, with a minimum of downtime for the generating units.

Among our maintenance projects this year, we completed a $14-million overhaul of Unit #1 at Poplar River Power Station in Coronach. Using a scaffolding system that spanned 11 floors from the ash pit up through the boiler, workers inspected and serviced this massive piece of equipment. We also finished a $4.5-million overhaul on Units #7 and #8 at E.B. Campbell, our largest-capacity hydro station, increasing the capacity and improving the reliability and operational flexibility of these 35-year-old units.

We also continue to invest in our transmission and distribution facilities to ensure that we can meet load growth forecasts and reliability standards. Major projects in 2001 included a substation rebuild in Shaunavon, capacity increases at our Red Jacket and Confederation Park substations, transformer projects in Peebles and Beatty, and a number of line rebuilds. The Stoughton to Fillmore rebuild had the added benefit of being used as a learning project for a line apprentice induction crew, and they successfully completed the work on time and within budget targets.

Whether they're out on the windswept prairie or travelling stretches of line in the north that are accessible only by helicopter, our employees face Saskatchewan-sized challenges every day as they maintain the electrical grid and provide valuable services to our customers.

Green power will be an important part of our future.

Managing the Environment

Environmental issues are among SaskPower's most significant challenges. We're committed to balancing the need to provide safe, reliable, cost-effective electricity to our customers with the need to protect the environment and reduce greenhouse gas emissions.

As our industry awaits further direction from the federal government regarding Canada's involvement in the Kyoto Protocol, SaskPower is taking a proactive approach to reducing and mitigating greenhouse gases through our climate change action plan, which is updated annually.

environment
effective
balance.
SaskPower
Queen Elizabeth

We've participated in the federal Voluntary Challenge and Registry (VCR) Inc. since its inception in 1995, to help minimize the impact of our operations on the environment. Although VCR Inc. was launched as a federal program, it is now a non-profit partnership between industry and governments across Canada. Partners develop and track the action plans and progress reports on their greenhouse gas emission reduction initiatives.

In 2001, VCR Inc. recognized SaskPower as a Gold Champion Level Reporter, the highest level of achievement in their reporting system.

We're working to achieve greenhouse gas emission reductions through efficiency gains in our operations. We're also investigating opportunities to offset emissions from our thermal generation.

Our largest offset initiative is a pilot project to purchase sequestered carbon from Saskatchewan Environment and Resource Management (SERM). The project supports Saskatchewan's northern forests through reforestation and the creation of Forest Carbon Reserves to safeguard existing forests.

We know that alternative technologies will become increasingly important as the world works to develop solutions to the climate change issue. We continue to invest in research and development initiatives such as the International Test Centre for Carbon Dioxide Capture at the University of Regina. We also belong to the Canadian Clean Power Coalition, a consortium of coal-using utilities working together to explore clean coal technologies that may enable Canada to continue using this reliable, low-cost fuel as we meet our environmental commitments to the global community.

And because awareness is critical for action, we undertook projects in 2001 that educated the public and our employees about climate change, from sponsoring school visits to the Saskatchewan Science Centre to conducting a seminar that raised awareness among our employees of how climate change may affect our business.

Environmental commitment is a shared responsibility and SaskPower is a proud partner in a number of initiatives to protect Saskatchewan's ecosystem and species at risk, including the development of a long-term recovery plan for lake sturgeon downstream from E.B. Campbell Hydro Station. We support wildlife habitat projects in the province through our Diamond Legacy sponsorship with Ducks Unlimited Canada. Our support enabled Ducks Unlimited to expand its wetlands educational program, which is offered at no charge to schools across the province.

The environment is a core focus in our daily work and we take a proactive approach to managing environmental issues.

Shand Greenhouse is an important part of our commitment to environmental responsibility and stewardship. Using waste heat from the Shand Power Station, we grow tree, shrub, native wildflower and grass seedlings and distribute them to the public. In 2001, we distributed almost 490,000 seedlings, bringing our 10-year total to more than 2.8 million seedlings. Trees sequester increasing amounts of carbon as they age and our tree-planting initiatives help SaskPower offset greenhouse gas emissions.

We offer a variety of programs that support the corporation's commitment to build public awareness about environmental issues. Thousands of people tour the greenhouse and participate in our planting projects each year. We continue to expand our outreach activities, from providing educational displays and opportunities for dialogue with customers at our spring open house to revamping the in-school presentation that greenhouse staff have delivered to students over the past seven years.

The 228-MW Cory Cogeneration Station is under construction at the Cory Potash Mine southwest of Saskatoon. SaskPower International has teamed up with ATCO Power on this environmentally progressive project that will help meet our customers' demand for electricity when it comes on-line in late 2002.

We've designed the new presentation to be delivered by SaskPower employees across the province so we can make the environmental connection with many more students.

The environment is a core focus in our daily work and we take a proactive approach to managing environmental issues. We're a proud partner in the Environmental Commitment and Responsibility (ECR) program, a joint initiative with other utilities across Canada. The ECR program commits Canada's utilities to move toward the highest standards possible in terms of minimizing their impact on the environment.

In 2000, SaskPower achieved corporate-wide registration to the ISO 14001 standard, the first electric utility in Canada and the first major business headquartered in Saskatchewan to do so. Independent audits in 2001 verified that our environmental management system continues to meet the rigorous standards set by the International Organization for Standardization (ISO).

We conduct environmental screening on hundreds of developments annually, considering such issues as potential fisheries impact and archaeological site conflicts. We also conduct environmental site assessments prior to the purchase or release of property as well as at specific operating sites.

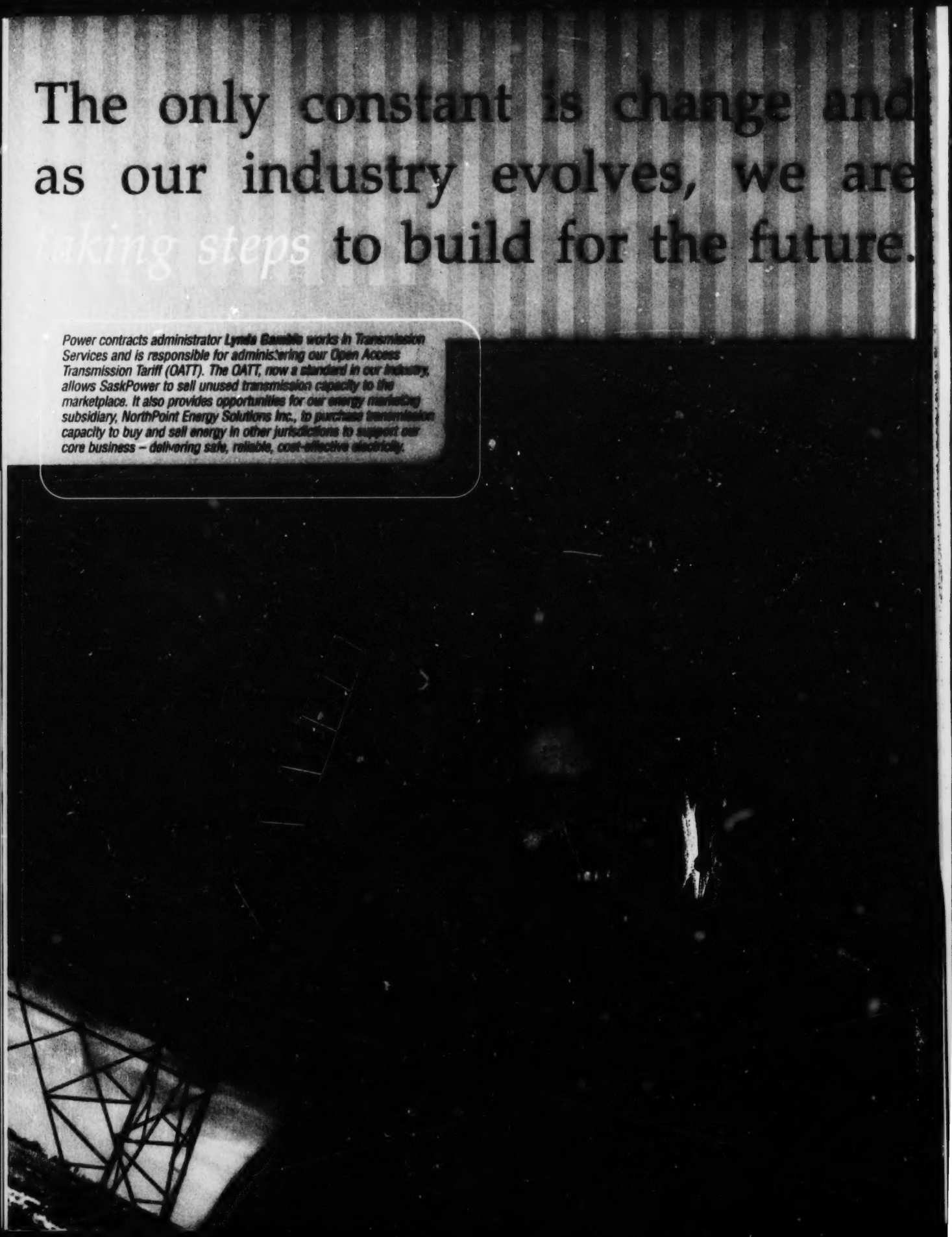
We're committed to the highest standards of environmental approvals, including public consultation, in cooperation with all regulatory agencies. Public involvement on the PA8 transmission line – a project we're proposing to meet the growing load requirements in northern Saskatchewan – included a series of public open houses and ongoing correspondence and communication with landowners.

The routing of transmission lines is a major challenge in the utility industry. We established a panel of independent experts in 2000 to recommend guidelines and practices that could be applied to the routing of transmission lines on private and municipal land in the surveyed portion of the province. The panel put forward its recommendations in 2001 and SaskPower will adopt the majority of the recommendations that pertain to us. The recommendations include enhancing the public participation process, with a community-based approach to social and economic evaluation of transmission line corridors.

The environmental aspects of generating electricity will continue to fuel debate at a provincial, national and international level. The challenges are great, but so too is the determination to develop solutions that work. We share that determination here at SaskPower and we'll continue to take a proactive role in protecting the environment for future generations as we deliver safe, reliable, cost-effective electricity to our customers.

The only constant is change and as our industry evolves, we are taking steps to build for the future.

*Power contracts administrator **Lynda Gamble** works in Transmission Services and is responsible for administering our Open Access Transmission Tariff (OATT). The OATT, now a standard in our industry, allows SaskPower to sell unused transmission capacity to the marketplace. It also provides opportunities for our energy marketing subsidiary, NorthPoint Energy Solutions Inc., to purchase transmission capacity to buy and sell energy in other jurisdictions to support our core business – delivering safe, reliable, cost-effective electricity.*



Building our Business

Generating new revenues is an important part of SaskPower's strategy to build our business and improve our financial stability.

SaskPower International, a SaskPower subsidiary, is our development arm. To diversify our revenue base and achieve an appropriate return on investment capital, SaskPower International focuses on three primary activities – investing in power projects, in cooperation with knowledgeable partners, where the application of SaskPower's core skills can add value and where commercial and political risks are acceptable and manageable; marketing SaskPower's expertise to national and international markets; and selling flyash and other by-products.

We're partnering with ATCO Power to construct the 228-MW Cory Cogeneration Station near Saskatoon, an environmentally advanced facility that will begin supplying electricity to Saskatchewan residents in late 2002.

SaskPower International has also acquired a 30 per cent ownership interest in ATCO's Muskeg River Mine Cogeneration Project. The 170-MW plant is currently under construction at the Athabasca Oil Sands Project's Muskeg River Mine in northern Alberta. The mine will use all of the steam output and about half of the power output, with the remaining electricity sold into the Power Pool of Alberta. The $225-million plant is expected to be in service by late 2002.

Flyash, a by-product of coal-fired generation, is an expanding market for SaskPower International. The flyash-handling facilities at Boundary Dam Power Station have been upgraded and we now have a more reliable supply of high-quality flyash for sale. Among our initiatives, we're working to increase our presence in the Manitoba market. Flyash continues to be used in Saskatchewan for road-base stabilization on secondary highways as well as other applications.

SaskPower's business expertise is in demand all over the world and our consulting work in 2001 included advising clients in Kazakhstan, Russia and Dominica. We hosted a Russian delegation in Saskatchewan, offering SaskPower International and SaskPower the opportunity to strengthen our relationship with one of the many Russian utilities in need of modernization.

> We want to excel in customer service and we've undertaken a range of projects to help us become more customer-focused.

Positive relationships are also important to the work of SaskPower's Customer Services staff. Building our business in Saskatchewan means building customer loyalty – we need to ensure that our customers are satisfied with the products and services they receive from SaskPower. Otherwise, when the opportunity arises, they may take their business elsewhere. We want to excel in customer service and we've undertaken a range of projects to help us become more customer-focused.

Many of our customers get in touch with us by phone and it's our goal to deliver prompt, informative service. Our interactive voice response system provides people with an automated method of receiving general outage information, freeing our operators to handle customers with new outages to report. Our new regional call-handling process gives our 37 customer service offices the flexibility to take calls for more than their designated district.

In 2001, we implemented streamlined procedures for handling service applications and billing inquiries and we centralized the function of collecting overdue accounts for consistency in applying SaskPower's policies and practices.

We've also taken some steps into cyberspace, working with SaskEnergy to launch EnergyCheck, an interactive energy information service. Consumers can go on-line to learn about the electricity and natural gas usage in their homes and find out ways to save money and reduce their energy consumption.

To help us better understand our customers, we're doing research that will enable us to identify the drivers of customer loyalty and satisfaction and pursue new opportunities to deliver value-added products and services.

We continue to achieve successes with SaskPower Energy Solutions, a group of products and services designed to help our large commercial, industrial and institutional customers reduce their energy costs. Our energy performance contracting (EPC) product, offered through an alliance with Honeywell Ltd., is providing new opportunities for SaskPower and contributing to the increased satisfaction of our customers. Among our projects, we're implementing the fourth of five phases of our EPC work with Saskatchewan Property Management Corporation (SPMC) to assess and retrofit approximately 70 provincial government buildings.

Out in the field, our sales team is working to improve our understanding of customers and their industries, from oil, mining and manufacturing to pulp and paper. Our meter readers now wear clothing identifying them as SaskPower employees and use our fleet vehicles when they head out on their routes, improving safety and raising their visibility to provide a greater comfort level to customers.

Also in the metering area, we've developed a business case for an automated meter reading infrastructure that would deploy time-of-use metering to specific customer sites, including residential and commercial/industrial. The project will be phased in over a five-year period and provide us with information for use in costing/pricing as well as a potential energy information service to targeted customers.

Customer service is always a work in progress and we remain committed to driving our research, product and service initiatives in the most economic manner possible. We're taking the same approach in developing our knowledge infrastructure for the future. We initiated the Corporate Process Improvement Program in 2001 with the mandate to position SaskPower to realize the benefits from our investment in SAP through a number of process improvement initiatives.

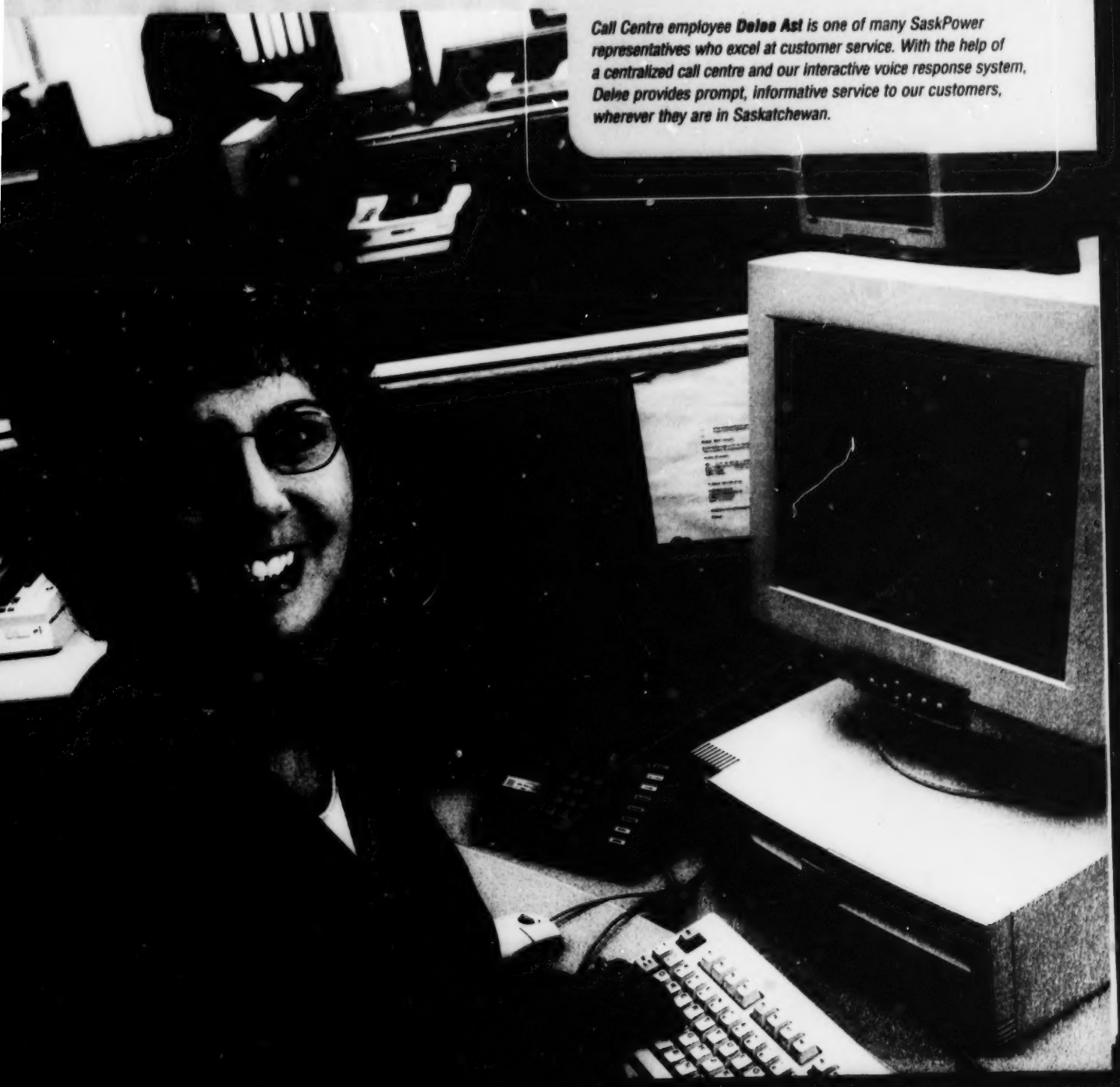
As some jurisdictions move to deregulation and competition, we've taken the necessary steps to keep SaskPower functioning effectively in the marketplace. SaskPower's Open Access Transmission Tariff (OATT) was posted as planned in July 2001 and was operational in November. It enables us to share the use of surplus capacity on our transmission system, provide choice to our two wholesale customers – the municipal utilities in Saskatoon and Swift Current – and gain reciprocal access to the unused transmission capacity of other jurisdictions.

We established a customer dialogue process in which potential customers and stakeholders of the OATT meet regularly to discuss business issues, tariff rates and industry changes in an open access environment. Established in consultation with Crown Investments Corporation and Saskatchewan Energy and Mines, this process serves in lieu of a formal regulatory body for rates, policies and business procedures associated with the OATT.

We launched an energy marketing subsidiary, NorthPoint Energy Solutions Inc., in 2001 to functionally separate transmission service from wholesale market operations. The business and legal separation established between SaskPower and the NorthPoint marketing functions ensures non-discriminatory access to SaskPower's transmission system. By carrying out the power marketing and generation optimization functions for SaskPower, NorthPoint staff will work to minimize our fuel costs and capture value for any surplus electricity.

From the strategic analysis that goes into every project to our front-line work with customers, we're taking steps to build our business in a changing industry. Our financial realities challenge us to be innovative, to do more with less, as we build on our core business – delivering safe, reliable, cost-effective power to our customers.

To us, *customer service* is a work in progress. To our customers, it's as close as the nearest phone.



*Call Centre employee **Delee Ast** is one of many SaskPower representatives who excel at customer service. With the help of a centralized call centre and our interactive voice response system, Delee provides prompt, informative service to our customers, wherever they are in Saskatchewan.*

Making a Difference

As Saskatchewan's electric utility and largest Crown corporation, we challenge ourselves every day to make a difference in the quality of life we enjoy here in the province.

The safety of our employees and customers is our top priority and we commit our time and resources in a variety of initiatives province-wide to help ensure that people live and work safely. We commend our employees for their efforts to work safely in 2001 and, together, we continue to advance our corporate-wide safety strategy.

Our gas and electrical inspection group inspects thousands of residential and business installations each year and we vigorously promote chimney safety. We're helping to make farmyards safer by burying 14.4-kV, single-phase primary conductors in farmyards and adjacent work areas at the request of the customer. Costs are shared between the customer and SaskPower.

We partner with the Saskatchewan Safety Council to promote safety to young people through the Power Pac, a program that trains teens to educate elementary school students about safety issues. Drawing from the success of the rural program, which visited about 170 schools in the 2000-01 school year, the Saskatchewan Safety Council developed an urban program and piloted it in 20 Regina schools.

The well-being of Saskatchewan's young people is very important to us and we also enhance their quality of life through our corporate contributions program, which invests more than $1 million annually in Saskatchewan communities. Hundreds of community initiatives benefit from our sponsorship commitment, including the Dress a Champion program, which supplies hockey equipment to inner-city youth. This year, we celebrated the 25th year of the Junior Citizen of the Year awards in partnership with the Saskatchewan Weekly Newspapers Association. Over 140 deserving young people have been recognized for their achievements since 1976.

Other sponsorships in 2001 included funding toward the Saskatchewan Science Centre, one of the province's leading family attractions, and the Spinoza Bear program, which puts cuddly talking bears in the hands of children with visual disabilities. We participate in several awards programs that recognize women for their accomplishments and continue to support women's curling here in the heartland of the sport, from annual playdown events and the SaskPower Scott provincial championship to the SaskPower Schmirler Women's Curling Classic, one of the leading bonspiels on the women's curling tour. We provided support to Saskatchewan Express in 2001 so audiences across the province could enjoy the talents of these young singers and dancers.

We're also reaching out to Saskatchewan youth to encourage them to pursue technology and trades careers. As a number of our employees reach retirement age over the next 10 years, SaskPower will offer excellent job prospects in a variety of fields.

In an initiative with Moose Jaw's Vanier Collegiate, several female students participated in eight-week job placements at SaskPower work sites, including Shand Power Station in Estevan and Queen Elizabeth Power Station in Saskatoon. The Vanier program is an initiative of the Women in Trades and Technology (WITT) national network.

Our apprenticeship program offers great learning opportunities for men and women interested in the mechanical, instrumentation, electrical, operating and line trades. And because the learning doesn't end when you land the job, we also offer opportunities for our employees to enhance their skills.

We value the expertise of our employees and we're committed to building a knowledge company that is in a strong position to meet SaskPower's current and future business challenges. Initiatives like our leadership development and succession planning programs will help ensure that we have a pool of skilled employees in years to come.

Recruiting and retaining skilled employees are two of the most critical challenges facing SaskPower. Changing demographics in Saskatchewan will mean changes to SaskPower's workforce in the future. Our diversity strategy is helping us tap into the labour markets that haven't been fully utilized to date – Aboriginal people, people with disabilities, visible minorities, and women in non-traditional roles.

SaskPower's Aboriginal employees network, established in May 2001, provides a collective voice for Aboriginal employees across the province. Identifying and addressing issues will help SaskPower recruit and retain qualified Aboriginal employees and build a representative workforce that reflects Saskatchewan's growing Aboriginal population.

We're working to create a culture that respects and celebrates the differences in all of us and promotes open communication. We established an Aboriginal employees network in 2001 to ensure that employees receive the support they need to prosper in our workforce. Shared internal responsibility is one of the key elements of our diversity strategy, and we offer diversity awareness training for employees and provide our management team with the resources they need to champion diversity throughout the corporation.

We know that a diverse workforce that reflects the people of Saskatchewan makes good business sense and will help strengthen our position as one of the province's leading employers and economic drivers.

SaskPower employs 2,300 people, manages $3.6 billion in Crown assets and contributes more than $600 million annually to the provincial economy. Over the past 17 years, we've purchased more than $3.5 billion in goods and services in Saskatchewan.

We average 77 per cent of our purchases from local firms. In 2001, our transactions with Saskatchewan companies for goods, services, royalties and fuel totalled $432 million. We also collected and paid $71 million in municipal surcharges, grants in lieu of taxes, corporate capital tax and provincial sales tax.

We work with local suppliers of goods and services to make them more competitive in the marketplace and encourage innovation. In 2001, we teamed up with Commercial Industrial Manufacturing (CIM) in Humboldt to develop a safer base for street light standards. These bases are used in high-traffic areas to reduce collision damage and prevent injuries to individuals. While potentially reducing injuries, the CIM innovation will also benefit the local economy and result in long-term savings for SaskPower.

We signed a new five-year contract in 2001 with Partner Technologies Incorporated (PTI) of Regina to purchase about $30 million worth of transformers, providing the ongoing stability they need to keep expanding their operations. PTI received one of our first Power of Business awards, a program we launched in 1999 to recognize the important role that local firms play in SaskPower's success and their contribution to the Saskatchewan economy.

In 2001, we recognized Hitachi Canadian Industries Ltd. in Saskatoon and Balzer's Canada Inc. in Emerald Park with Power of Business Awards. Both companies continue to expand their operations as a result of the work generated through contracts with SaskPower.

We're proud to work with our suppliers to meet the challenges of the marketplace. Although it's been a difficult year for SaskPower in many ways, challenges offer important learning opportunities and we're moving forward with new insight and experience.

Management Discussion and Analysis highlights the primary factors that have an impact on the financial results and operations of the Corporation. It should be read in conjunction with the audited financial statements and the accompanying notes.

Saskatchewan Power Corporation (SaskPower; the Corporation) is a provincially owned Crown corporation and the principal supplier of electricity in Saskatchewan. SaskPower is a subsidiary of the Crown Investments Corporation of Saskatchewan (CIC), the holding company for Saskatchewan's commercial Crown corporations. Through its province-wide system the Corporation generates, purchases, transmits, distributes and sells electricity and related products and services.

2001 Revenue

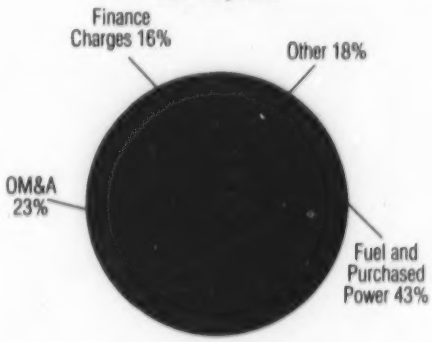
Total Revenue: $1,126 million

Financial Overview

During 2001, SaskPower continued to provide safe, reliable, cost-effective power to customers throughout Saskatchewan, export electricity to external markets, and invest for the future. However, significant challenging conditions worsened the Corporation's 2001 financial results compared to 2000.

Earnings were down 73% because export sales declined while fuel and purchased power costs increased in 2001. At the same time, SaskPower's capital investments, largely to expand capacity and enhance reliability were 73% higher than in the previous year. Debt levels, consequently, began to rise in 2001 to finance a portion of these large capital outlays as income fell.

2001 Expense



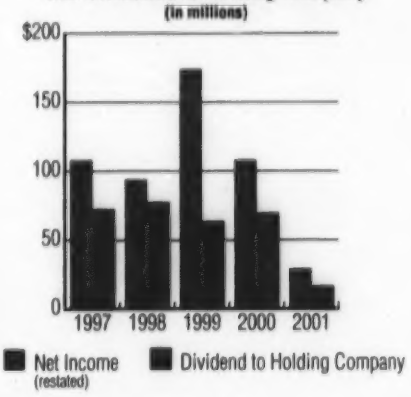
Total Expense: $1,097 million

Composition of Revenue and Expense

SaskPower's revenue consists of sales of electricity to Saskatchewan's customers, exports to external markets, and other revenue including natural gas and electrical permit charges, proceeds from custom work, flyash sales and customer connect fees.

The Corporation's major expense categories consist of fuel and purchased power, operating, maintenance and administration, finance charges and other expenses including depreciation, taxes, and future asset removal and site restoration costs.

Five-Year Summary of Net Income and Dividends to Holding Company
(in millions)



Net Income

SaskPower's consolidated net income was $29 million in 2001, a decrease of $79 million from 2000. Of this $29 million net income, $16 million will be paid to the Corporation's holding company, CIC, as a dividend compared to $69 million for 2000. Over the last five years, SaskPower has paid approximately $300 million in dividends to its holding company.

Cash from net income after dividends are paid is invested back into the Corporation's infrastructure or used to pay-down debt.

In 2001, SaskPower paid various royalties, taxes and other charges as indicated below:

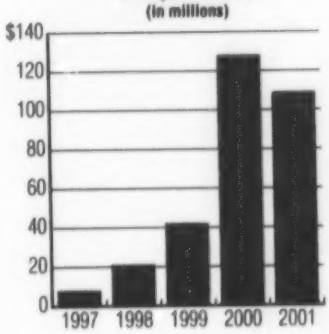
Royalties, Taxes and Water Rentals (in millions)

Payment	Recipient	2001	2000	Change
Corporate Capital Tax	Government of Saskatchewan	**$13**	$12	$ 1
Coal Royalties	Government of Saskatchewan	**21**	13	8
Provincial Sales Tax	Government of Saskatchewan	**13**	10	3
Water Rentals	Saskatchewan Water Corporation	**6**	8	(2)
Grants in Lieu of Taxes	Various Saskatchewan Municipalities	**13**	12	1
Total		**$66**	$55	$11

The Corporation collected $32 million in municipal surcharges from customers on behalf of local governments in 2001, compared to $30 million in the previous year, and remitted these amounts back to over 440 Saskatchewan communities.

In addition, SaskPower supported economic development throughout the province through purchases from local suppliers and contractors. Overall, the Corporation contributed $646 million to the provincial economy in 2001, compared to $664 million in the prior year.

Five-Year Summary of Export Sales
(in millions)



Revenue

Total revenue growth in 2001 was only 2% as export sales to customers outside of Saskatchewan declined 15%. This drop in export sales marked a reversal from the previous year when expanding export sales led SaskPower's revenue growth.

Saskatchewan sales revenue increased 4% in 2001 relative to 2000 due mainly to higher load growth from farm and oilfield customers and a general rate adjustment effective April 1, 2001. This rate adjustment increased system-wide revenue by 2% or $14 million in 2001.

Five-Year Summary of Revenue
(in millions)

Expense

Total expense, including finance charges, for 2001 was 10% above 2000 due primarily to a 22% increase in fuel and purchased power costs. Fuel and purchased power costs have nearly doubled in the last three years reaching $468 million in 2001. In 2001, 42¢ of every dollar of revenue went to pay for fuel and purchased power compared to 35¢ in 2000.

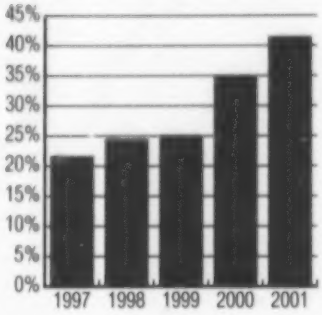
Fuel and Purchased Power

Fuel and purchased power costs were up $84 million or 22% in 2001 compared to the prior year. This was mainly attributable to two key factors.

First, near record low level river flows in 2001 reduced hydro generation by 22% below 2000 (and about 29% below the five-year average). Hydro is SaskPower's least expensive means of generating electricity. As a result of the record low river flows, SaskPower had to turn to other relatively more expensive methods such as purchasing power from utilities outside of Saskatchewan to supply electricity to customers.

Second, record high prices for natural gas added upward pressure on fuel costs at the Corporation's gas-fired power plants, and on the cost of power purchased from other generators. The benchmark Alberta Index (AECO C) monthly average price of gas rose from $4.76 per gigajoule in 2000 to $5.97 in 2001. The average price of natural gas out of SaskPower inventory was up 40% in 2001 over 2000, while the average price of power purchased from other generators rose more than 16%.

Five-Year Summary of Fuel and Purchased Power Costs as a Percentage of Revenue

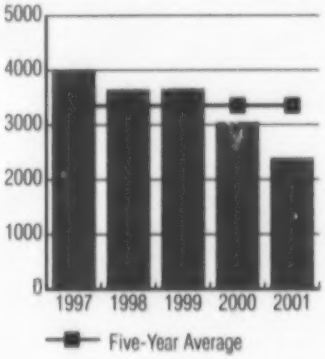


Finance Charges

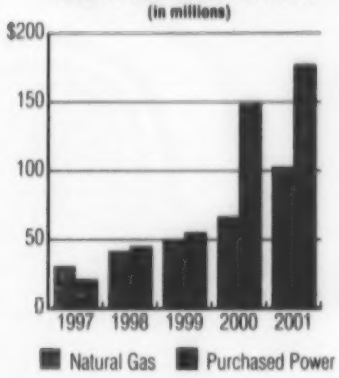
Compounding the cost challenges of higher gas prices and prairie drought in 2001 was the sizeable slide in the value of the Canadian dollar relative to the United States dollar. The Canadian dollar was worth U.S. $0.6276 at the end of 2001, down U.S. 3.9¢ from U.S. $0.6666 at the prior year-end. During 2000, the Canadian dollar fell U.S. 2.63¢.

The slide in the Canadian dollar, coupled with the adoption of a new foreign currency accounting policy in 2001 pursuant to the Canadian Institute of Chartered Accountants (CICA) Handbook Section 1650, increased finance charges, lowered net income, and reduced equity. The table on the following page summarizes the impact of the revised CICA Handbook Section 1650 for 2001 which requires companies to immediately recognize foreign currency translation losses.

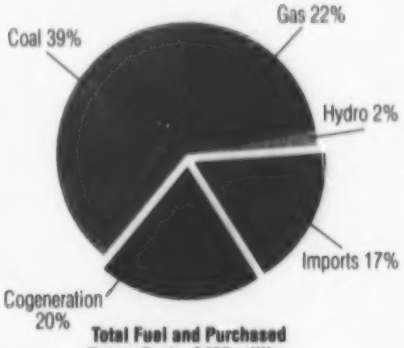
Five-Year Summary of Hydro Generation (GW.h)



Five-Year Summary of Natural Gas and Purchased Power Costs
(in millions)

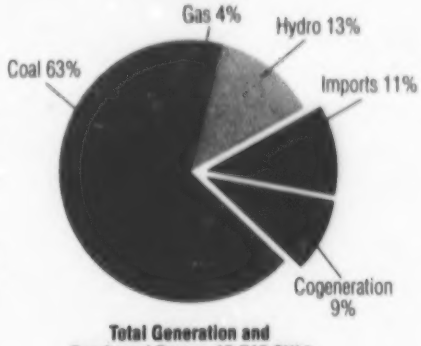


2001 Fuel and Purchased Power Costs by Type (%)



Total Fuel and Purchased Power Costs: $468 million

2001 Generation and Purchased Power by Type (%)



Total Generation and Purchased Power: 18,718 GW.h

Impact on 2001 Financial Results of Revised CICA Accounting Handbook Section 1650 – Reporting Foreign Currency Translation

($ millions)	Revised Standards	Previous Standards	Change
Finance Charges	$ 181	$ 150	$ 31
Net Income	$ 29	$ 60	$ (31)
Equity	$1,140	$1,292	$(152)

Analysis of Revised CICA Accounting Handbook Section 1650

In prior years, SaskPower had incurred about $600 million long-term United States dollar denominated debt. These funds were used primarily to finance construction of generation, transmission and distribution facilities. For financial statement purposes, SaskPower translates this United States dollar denominated debt to Canadian dollars at the exchange rate in effect at year-end and reports this amount on the company's balance sheet as "long-term debt".

Although the United States dollar denominated debt was restated at the year-end exchange rates for all years prior to 2001, the foreign currency differences were not immediately recognized on the income statement. Instead, this amount was accumulated and reported on the balance sheet within "other assets and deferred charges". These foreign exchange differences were then expensed as finance charges over the life of the United States dollar denominated debt.

In 2001, SaskPower adopted a new accounting policy in accordance with revised CICA standards which requires all foreign currency translation differences to be immediately recognized and recorded as an expense in the current year.

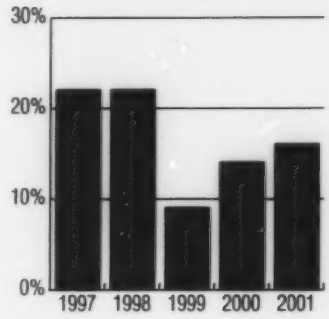
This change in accounting policy had a significant impact on financial results – a $31 million increase in finance charges, a $31 million decrease in net income and a $152 million adjustment to equity in 2001.

For purposes of comparison with 2001 results, the prior period financial statements have been restated using the new accounting standards as shown below.

(in millions)	2000	1999	1998	1997
2000 Annual Report				
Finance Charges	$ 138	$ 155	$ 169	$ 176
Net Income	126	114	140	132
Equity	1,248	1,191	1,140	1,077
2001 Annual Report with prior years restated				
Finance Charges	$ 156	$ 95	$ 215	$ 200
Net Income	108	174	94	108
Equity	1,127	1,088	977	959
Impact of Accounting Change				
Finance Charges	$ 18	$ (60)	$ 46	$ 24
Net Income	(18)	60	(46)	(24)
Equity	(121)	(103)	(163)	(118)
Canadian Dollar, Beginning of Year	U.S. 69.29¢	U.S. 65.23¢	U.S. 69.97¢	U.S. 72.96¢
Canadian Dollar, End of Year	U.S. 66.66¢	U.S. 69.29¢	U.S. 65.23¢	U.S. 69.97¢
Change in Value of Canadian Dollar	U.S. (2.63¢)	U.S. 4.06¢	U.S. (4.74¢)	U.S. (2.99¢)

Due largely to the lower value of the Canadian dollar relative to the United States dollar, finance charges rose 16% or $25 million in 2001 over the previous year. Finance charges as a percent of revenue were up from 14% in 2000 to 16% in 2001. Interest charges fell between 1995 and 2000 as debt was significantly reduced.

Five-Year Summary of Finance Charges as a Percentage of Revenue

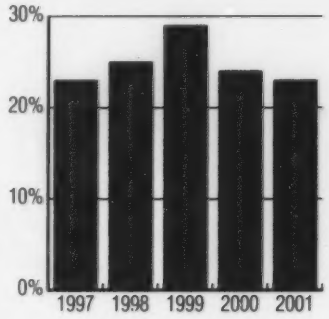


Operating, Maintenance and Administration

In contrast to finance charges and fuel and purchased power costs, operating, maintenance and administration expense (OM&A) was down 4% in 2001 compared to 2000. This decrease was due primarily to lower maintenance and repair costs and a non-cash adjustment to pension expense which more than offset increased wages and salaries. Wages and salaries were up in 2001 reflecting terms of collective bargaining agreements and the cost of additional apprentices hired in the line, electrical, mechanical and instrumentation trades.

In 2001, 22¢ out of every dollar in revenue went to pay for OM&A. This is down from 24¢ in 2000.

Five-Year Summary of OM&A as a Percentage of Revenue



Analysis of Pension Expense

In accordance with generally accepted accounting principles, SaskPower records amounts for the benefit cost associated with its two pension plans.

The annual cost associated with the **defined contribution plan** is limited to contributions made by the Corporation for the employees' current year services. The Corporation's contributions to this plan were $6 million in 2001, up from $5 million in 2000.

The annual costs associated with the **defined benefit plan** reflects the cost of benefits employees are entitled to when they retire. This cost is accrued in the period in which the employees earn their entitlement to these benefits.

The defined benefit plan expense is determined by netting the cost of benefits earned by the employees in the period against the income earned from plan assets in the period. The cost of benefits earned by the employees in the period is based on salary, age at retirement and length of service.

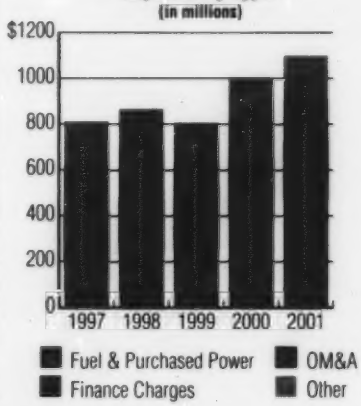
The income recognized from the plan's assets in the period is based on the expected long-term return on the plan's assets, not on actual market returns.

The calculation of the expense is completed by an independent actuary.

The actuarial valuation for 2001 indicates that plan assets are expected to grow $14 million more than obligations. Therefore, the Corporation recorded a pension cost adjustment of ($14) million for 2001 compared to ($7) million in the previous year. This amount was recorded in OM&A in the financial statements of the Corporation. This is a non-cash item on the books of SaskPower and does not impact the assets of the pension fund.

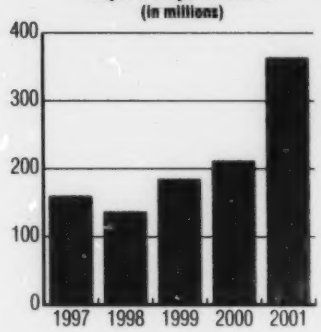
The defined benefit pension fund assets are held in the Power Corporation Superannuation Plan for which a separate annual report is prepared.

Five-Year Summary of Expense by Type
(in millions)



In summary, total expense including finance charges increased $104 million in 2001 compared to the previous year. The increase in the Corporation's expenses over the last few years has been driven largely by rising fuel and purchased power costs.

Five-Year Summary of Capital Expenditures
(in millions)



Capital Expenditures

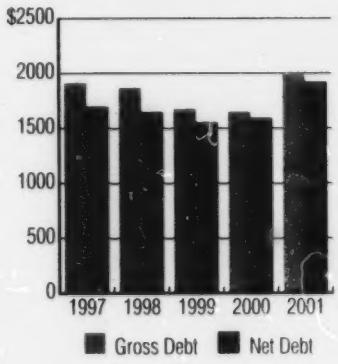
In order to ensure a safe, reliable and cost-effective supply of electricity for its customers, SaskPower invested $364 million in various capital projects during 2001, compared to $210 million in 2000. Major capital investments in 2001 included:

- $98 million to add by fall 2002, 150 megawatts of natural gas-fired generation capacity to the Queen Elizabeth Power Station near Saskatoon;
- $63 million, through its subsidiary, SaskPower International Inc., in the construction of the Cory Cogeneration Station. This joint venture with ATCO Power Canada Ltd. to construct and operate a 228-megawatt natural gas-fired cogeneration plant near Saskatoon is expected to commence commercial operation in late 2002;
- $56 million to connect customers to the SaskPower electrical system;
- $30 million to refurbish boilers to improve efficiency in electrical generation and upgrade coal handling facilities at the Poplar River, Boundary Dam and Shand Power Stations;
- $11 million to replace aging wooden power poles to enhance the safety and reliability of overhead electrical lines;
- $9 million to install new precipitators at Boundary Dam Power Station. The use of precipitators, which remove particulates from coal-fired thermal station emissions, maintains air quality and mitigates environmental concerns;
- $9 million in constructing or rebuilding transmission lines to transport electricity reliably throughout the province;
- $8 million for the purchase of vehicles for SaskPower operations;
- $7 million in building or renovating substations which are used to adjust electricity voltage; and
- $2 million to construct wind generation facilities as part of the Corporation's green power initiatives.

Borrowing and Debt

During 2001, SaskPower borrowed $200 million of long-term Canadian dollar denominated debt to finance a portion of the Corporation's capital expenditures. In addition, SaskPower International Inc. incurred $91 million of long-term Canadian dollar denominated debt associated with its joint venture interest in the Cory Cogeneration Station. This debt is referred to as non-recourse debt in that the lenders of this $91 million debt have recourse only to SaskPower International's interest in the Cory Cogeneration Station. This SaskPower International Inc. debt is included in SaskPower's consolidated financial statements as required by generally accepted accounting principles.

Debt Outstanding
at December 31 (in millions)



SaskPower's net debt position increased $327 million to $1,911 million at December 31, 2001 from $1,584 million at December 31, 2000. This increase reflects the $291 million in new debt and a $57 million increase in SaskPower's United States dollar denominated debt when restated in Canadian dollars. This is partially offset by a $21 million increase in sinking funds – monies set aside for orderly repayment of debt in the future.

From 1996 to 2000, stronger earnings and lower capital expenditures enabled the Corporation to pay for infrastructure investments internally as well as pay down about one-fifth of its debt.

Performance Measures

During 1999, CIC and its subsidiaries jointly developed a Crown Sector Strategic Plan to provide long-term direction to the Crown corporation sector and facilitate long-term planning. The plan includes a vision statement, a primary business purpose, common business values and strategic business objectives. Based on this plan, SaskPower developed a corporate scorecard which includes broad categories that were critical for the Corporation's future success. These measures include the following:

Financial Performance Indicators	Target	2001	2000
Return on Equity (%)	Minimum 10.00	**2.6**	9.8
Return on Capital (%)	Minimum 9.25	**8.5**	11.3
Percent of Debt in Capital Structure (%)	Maximum 60.00	**60.0**	57.4
Interest Coverage Ratio (# of times covered)	Minimum 2 times	**1.4**	1.8

Non-Financial Performance Indicators	Target	2001	2000
SAIFI	<1.8	**1.61**	1.74
SAIDI	<3.6	**3.22**	3.34
Generated Energy (GW.h)	15,989	**14,900**	15,405
Severity Rate	40.0	**320.15**	30.10
Disability Injury/Illness Frequency Rate	1.6	**1.55**	2.69
Saskatchewan Content in SaskPower Purchases	75%	**77%**	83%

Description of Performance Indicators

Return on Equity – is a measure of net income expressed as a percentage of total equity.

Return on Capital – is a measure of net income expressed as a percentage of net debt plus total equity less cash on hand.

Percentage of Debt in Capital Structure – is a measure of debt expressed as a percentage of the total corporate financing structure.

Interest Coverage Ratio – is a measure of the extent to which income before financing charges is able to cover the corporation's interest obligations.

System Average Interruption Frequency Index (SAIFI) – measures the average service interruption frequency from a customer's point of view. This is used to track the overall performance of SaskPower's transmission and distribution system.

System Average Interruption Duration Index (SAIDI) – measures the average service interruption length in hours from a customer's point of view. This is used to track the performance in responding to outages.

Generated Energy (GW.h) – is the volume of electricity that was generated from SaskPower's generating facilities.

Severity Rate – is an index that expresses the severity of injuries incurred at work during the year based on the number of days lost and the severity of the injury(s). This index allows SaskPower to focus on safety and plan initiatives as required to shorten the length of lost time through retraining or reassignment.

Disabling Injury/Illness Frequency Rate – is a measure that expresses the number of work injuries or illnesses that result in lost work time during the year (days per 100 employees). This measure allows SaskPower to focus on safety and to trigger management initiatives to increase safety training and awareness among employees.

Saskatchewan Content in SaskPower Purchases – is a measure of the portion of expenditures that were procured from Saskatchewan vendors.

Return on Equity and Return on Capital decreased from 2000 primarily due to a decrease in net income. The Percentage of Debt in Capital Structure increased from 2000 due to increased borrowings, a decline in the Canadian dollar relative to the United States dollar and the adoption of CICA Handbook Section 1650. The Interest Coverage Ratio was well below target due to a decline in net income before financing charges.

SAIDI and SAIFI measures beat target levels and were an improvement over 2000 indicating the overall reliability of SaskPower's transmission and distribution system. The Generated Energy measure did not meet its target and was below 2000 levels due to reduced water flows which resulted in decreased capacity from SaskPower's hydro generation facilities. The Severity Rate index was dramatically above target and 2000 levels as a result of an employee fatality. The Disabling Injury/Illness Frequency Rate and the Saskatchewan Content in SaskPower Purchases measures were both comparable to target in 2001.

SaskPower Subsidiaries

SaskPower has three wholly owned subsidiaries, Power Greenhouses Inc. (Shand Greenhouse), SaskPower International Inc. and NorthPoint Energy Solutions, Inc. The Shand Greenhouse distributes seedlings which are grown using waste heat from the Shand Power Station. This helps offset the carbon dioxide emissions from coal-fired electrical generation. SaskPower International sells consulting services, markets flyash, a by-product of coal generation, and invests in power projects. NorthPoint Energy Solutions is the wholesale electrical marketing arm of SaskPower engaging in export and import of power.

Each subsidiary prepares and issues separate audited financial statements. The financial activities of SaskPower's subsidiaries are consolidated within the financial statements of SaskPower as summarized below.

2001 Net Income and Balance Sheet

(in thousands)

2001 Net Income	SaskPower (unconsolidated)	SaskPower International	NorthPoint Energy Solutions	Shand Greenhouse	Eliminating Entries*	Consolidated SaskPower
Revenue	$1,123,244	$ 3,597	$ 864	$ 661	$ (2,179)	$1,126,187
Expense	1,094,285	3,895	434	661	(2,179)	1,097,096
Net Income (loss)	$28,959	$ (298)	$ 430	$ –	$ –	$ 29,091
2001 Balance Sheet						
Total Assets	$3,494,424	$127,031	$11,321	$3,860	$(45,090)	$3,591,546
Liabilities	2,354,772	101,276	891	53	(5,157)	2,451,835
Equity	1,139,652	25,755	10,430	3,807	(39,933)	1,139,711
Total Liabilities and Equity	$3,494,424	$127,031	$11,321	$3,860	$(45,090)	$3,591,546

* Intercompany sales and charges are eliminated upon consolidation.

Outlook for 2002

Earnings, while expected to be higher in 2002, will likely continue to be constrained by softening export markets, prairie drought and volatile natural gas prices. However, an approved rate adjustment, effective January 1, 2002, is expected to increase system-wide revenue by 4.5% or $47 million in 2002.

SaskPower is committed to significant capital investments in 2002. These include completion of the Queen Elizabeth Power Station repowering project and the Cory Cogeneration Station. The Corporation will also invest more to enhance reliability of the transmission and distribution infrastructure.

Priorities and Challenges for the Future

SaskPower will continue to provide safe, reliable, cost-effective power to customers. In meeting this priority, the Corporation will address head-on challenges for the future. These involve human resource, technological, environmental, operational and financial issues.

Human Resources

Human resource issues such as recruitment and retention of a qualified and skilled workforce, compensation, training and development, and succession planning will be key for SaskPower's continued success as baby-boomers reach retirement age over the next five to 10 years. A more diversified workforce that closely mirrors the composition of the provincial population will improve the Corporation's ability to better serve its customers. Continuing to improve relations with SaskPower's two collective bargaining units is also an important ingredient for future success.

Aging Infrastructure

SaskPower's generation, transmission and distribution facilities were constructed primarily during the period of sustained growth in Saskatchewan that occurred from the 1950s to the 1970s. Many facilities are now over 40 years of age and require, on an annual basis, large amounts of regular maintenance and lengthy overhaul periods. Significant capital investment is required each and every year to ensure the system is in proper repair and that facilities and equipment are replaced or installed to meet the ever-increasing demand for electrical energy from our customers.

Technology

New developments in generation, transmission and distribution, and metering technologies will affect the way the Corporation operates in the future. For example, the shift to gas-fired generation in the electric industry over the last decade has been due to advances in gas-turbine technology resulting in lower capital costs and less impact on the environment. Clean coal technologies may also provide another option for generation of electricity in the future. Renewable energy sources such as wind and biomass also offer potential for cost-effective generation of power.

In the future, new distributed generation technologies such as micro-turbines and fuel cells may allow for alternatives to traditional types of generation to better serve the customer and reduce environmental impacts.

Environment

Environmental issues are expected to become more significant for the utility industry in the future. In an effort to continue to provide reliable service while realizing its responsibility to the environment, SaskPower in 2000 became the first utility in Canada and one of the first in North America to be registered under ISO 14001.

ISO 14001 is one of many different registrations offered through the International Organization for Standardization. This registration is designed to allow companies to systematize their environmental management efforts and provides an international framework for business and environmental improvement. It also requires organizations to make a commitment to comply with legal and other requirements, foster environmental protection and work to continually improve their environmental management system.

In June 2001, SaskPower announced construction of the Corporation's first utility-owned, wind-powered generating facility. The electricity provided by this facility will be sold to the Government of Saskatchewan for use in provincial buildings. This supplements a commitment made in 2000 to supply half of the power consumed by Government of Canada facilities in Saskatchewan through wind-powered generation facilities

under the SunBridge Wind Power Project. Both facilities are under construction and will be completed in 2002. These environmentally friendly projects comprise part of SaskPower's long-term green power commitment to provide cleaner energy sources to Saskatchewan customers.

In anticipation of future legislation, the Corporation has established a pilot project to purchase carbon offset credits which involves the protection of current forests and reforestation areas in the province. The Corporation also participates in a number of industry committees with respect to environmental issues of concern to electrical utilities. Looking ahead, SaskPower will continue to reduce the impact of operations on the environment through various environmental initiatives.

Regulation

The pace of industry restructuring across North America, as a result of legislative changes to allow customer choice of supplier in the electric industry, will continue to drive the regulatory environment. SaskPower is already operating in a competitive environment for sales of electricity outside provincial borders.

In 2001, the introduction of an Open Access Transmission Tariff (OATT) included the opening of the Saskatchewan market for its wholesale customers. The posting of an OATT will allow competitors to schedule access to SaskPower's transmission system and allow sales to the Corporation's reseller or wholesale customers in the future. The OATT allows SaskPower improved access to transmission facilities outside Saskatchewan for purposes of engaging in energy sales and earning revenues from external markets.

The current regulatory model in Saskatchewan allows Crown corporations to request rate adjustments with review by an independent rate review panel. The panel reviews the information and makes its recommendation to the provincial cabinet. This process, or a similar process, is expected to be in place in future years. This will require SaskPower to continually improve its operating and financial performance in order to justify fair and equitable rate adjustments in the face of continuing cost pressures.

Fuel and Purchased Power Cost

As indicated previously, fuel costs in 2001 increased by 22% over the previous year and now account for 43% of SaskPower's total expenses. Looking forward, the Corporation faces a number of challenges in managing fuel costs. These challenges include high and volatile natural gas prices and uncertain and decreased water flow levels. Lower than normal water flow levels will necessitate higher cost generation sources to meet customer load requirements.

In order to optimize production, SaskPower will continue to manage its current fleet of generating units and preserve the assets through regular maintenance and capital improvements. By using its most cost-effective generating facilities first, together with importing power and contracting with other producers, SaskPower will seek to minimize its fuel and purchased power costs.

New generation that is now under construction is predominantly gas-fired. The fuel costs for these units are substantially higher than existing hydro or coal-fired generating stations. As the mix of fuel sources shifts to more gas generation in the electric industry as a whole, all utilities, including SaskPower, will see a substantial increase in the cost of fuel to operate these generating stations.

SaskPower must continue to prepare for the future and must look for ways to continually improve its performance from conventional coal and hydro generation. At the same time, SaskPower must adopt new approaches and embrace new technologies to minimize fuel and purchased power costs and the environmental impact from its generation facilities.

In an effort to minimize the impact of volatility in the price of natural gas or other commodities necessary in the day-to-day operation of SaskPower, it is important that the Corporation has an effective risk management program in place.

Risk Management

SaskPower is exposed to various forms of risk in its business environment. Changes in interest rates, returns on short-term cash investments, fluctuations in foreign currency exchange rates and changes in natural gas and other commodity prices can impact a company's future financial success. To manage these exposures, the Corporation utilizes a number of financial instruments.

The Corporation is also subject to risks such as sudden and accidental loss of assets, interruption of business and liability suits. SaskPower utilizes two methods for dealing with these risks. Loss prevention methods are applied in instances where the risks can be controlled, eliminated or transferred. Loss prevention involves engineering, administrative and operating staff working to identify risks and develop loss prevention solutions. SaskPower also purchases insurance to minimize the impact from these types of risks.

SaskPower regularly updates and revises its policies and guidelines for risk management. These guidelines provide consistent risk management application across various business processes thereby better protecting and enhancing corporate value.

Improving Business Processes

During 1998 and 1999, SaskPower undertook a corporate-wide initiative called the Delta Project. This project was initiated to help prepare the Corporation for the possibility of competition by reviewing, redesigning and implementing effective operational processes and reporting methods. As part of the project, SaskPower replaced aging information systems with a Systems, Applications and Products in Data Processing (SAP) software system.

SaskPower will continue efforts to realize the benefits from its investment in SAP. The benefits include improved generation availability, performance efficiencies due to better work scheduling and operations improvements driven by process redesign efforts.

By facing challenges head-on and taking advantage of opportunities, SaskPower and its employees will continue to provide safe, reliable, cost-effective electricity to its customers today and into the future.

2001 SaskPower Executive Team (at December 31, 2001)

John Wright
President and Chief Executive Officer

Myron Gulka-Tiechko
General Counsel and Assistant Secretary

David Hughes
President and Chief Executive Officer
SaskPower International

Bill Hyde
Vice-President
Human Resources

W. Davern Jones
Vice-President and Chief Financial Officer
Corporate and Financial Services

Garner Mitchell
Vice-President
Power Production

Rick Patrick
Vice-President
Planning, Environment and Regulatory Affairs

Eric Rankin
Vice-President and Chief Information Officer
Corporate Information and Technology

Kelly Staudt
Vice-President
Transmission and Distribution

Anna M. Willey
Executive Director
Communications and Public Affairs

Patricia Youzwa
Vice-President
Customer Services

Chief Executive Officer
NorthPoint Energy Solutions Inc.

Roy Yeske, Vice-President of Transmission and Distribution, retired from our executive team in 2001. He has served the people of Saskatchewan with distinction since 1967. "I've really enjoyed my 35 years with SaskPower," says Roy. "Above all, I appreciate the terrific people I've had the good fortune to work with over the years. SaskPower can take pride in the dedicated, knowledgeable and skilled people who work here."

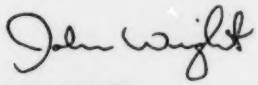
Report of Management

Management is responsible for the integrity of the financial data reported by the Corporation. Fulfilling this responsibility requires the preparation and presentation of financial statements and other data using management's best judgment, estimates and appropriately selected accounting principles, applied on a basis consistent with the preceding year.

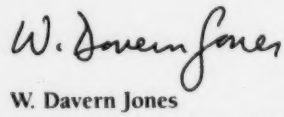
Management maintains appropriate systems of internal control, including corporate-wide policies and procedures and an internal audit program which provide reasonable assurance that the Corporation's assets are safeguarded and that financial records are relevant and reliable.

The Board of Directors, through the Audit and Finance Committee, ensures that management fulfills its responsibility for financial reporting and internal control. The Audit and Finance Committee consists of outside directors and at regular meetings reviews audit, internal control, and financial reporting matters with management, internal auditors and external auditors. The Audit and Finance Committee has reviewed the financial statements and submitted its report to the Board of Directors.

On behalf of Management,



John Wright
President and Chief Executive Officer
February 8, 2002



W. Davern Jones
Vice-President and Chief Financial Officer

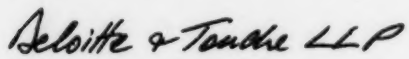
Auditors' Report

To the Members of the Legislative Assembly of Saskatchewan

We have audited the consolidated statement of financial position of Saskatchewan Power Corporation as at December 31, 2001 and the consolidated statements of income and reinvested earnings and of cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2001, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants
Regina, Canada
February 8, 2002

Consolidated Statement of Income and Reinvested Earnings

(in millions)

For the year ended December 31	2001	2000 (Restated – Note 2)
Revenue		
Electric sales		
Domestic	$ 994	$ 952
Export	109	128
Other	23	21
Total revenue	1,126	1,101
Expense		
Fuel and purchased power	468	384
Operating, maintenance and administration	254	264
Depreciation and amortization (Note 3)	156	151
Taxes (Note 4)	26	24
Future asset removal and site restoration	12	14
Total expense	916	837
Income before finance charges	210	264
Finance charges (Note 5)		
Interest expense and other	148	131
Foreign exchange losses	44	27
Allowance for funds used during construction (AFUDC)	(11)	(2)
Total finance charges	181	156
Net income	29	108
Reinvested earnings, beginning of year (Note 2)	467	428
Dividend declared	(16)	(69)
Reinvested earnings, end of year	$ 480	$ 467

See accompanying notes

Consolidated Statement of Financial Position

(in millions)

As at December 31	2001	2000 (Restated – Note 2)
Assets		
Current assets		
Cash and cash equivalents (Note 6)	$ 203	$ 68
Accounts receivable and unbilled revenue	142	153
Materials, fuel and supplies	105	105
	450	326
Property, plant and equipment		
Property, plant and equipment (Note 7)	5,158	4,982
Less: Accumulated depreciation (Note 7)	2,126	1,976
Contributions in aid of construction	231	224
	2,801	2,782
Construction in progress (Note 7)	270	97
	3,071	2,879
Other assets (Note 8)	71	19
Total assets	$3,592	$3,224
Liabilities and equity		
Current liabilities		
Accounts payable and accrued liabilities	$ 234	$ 205
Dividend payable	7	17
	241	222
Long-term debt		
Recourse debt (Note 9)	1,918	1,661
Non-recourse debt (Note 9)	91	–
Equity in sinking funds (Note 9)	(98)	(77)
	1,911	1,584
Other liabilities (Note 10)	300	291
Total liabilities	2,452	2,097
Equity		
Equity advances (Note 11)	660	660
Reinvested earnings	480	467
Total equity	1,140	1,127
Total liabilities and equity	$3,592	$3,224

Commitments and contingencies (Note 13)

See accompanying notes

On behalf of the Board:

David T. Barnard, Chair

V. Lynne Pearson, Director

Consolidated Statement of Cash Flows

(in millions)

For the year ended December 31	2001	2000 (Restated – Note 2)
Operating activities		
Net income	**$ 29**	$108
Charges (credits) to operations not involving cash:		
Depreciation and amortization	**156**	151
Future asset removal and site restoration	**12**	14
Foreign exchange losses	**44**	27
Net benefit plan expense	**(14)**	(7)
Sinking fund earnings	**(8)**	(19)
	219	274
Net change in non-cash working capital	**26**	(8)
Cash provided by operating activities	**245**	266
Investing activities		
Purchase of property, plant and equipment	**(364)**	(210)
Investment in Muskeg River Mine Cogeneration Project	**(14)**	–
Other investing activities	**–**	1
Cash used in investing activities	**(378)**	(209)
Increase (decrease) in cash before financing activities	**(133)**	57
Financing activities		
Dividend paid	**(26)**	(68)
Sinking fund installments	**(10)**	(8)
Sinking fund redemptions	**–**	90
Repayment of advances from Province of Saskatchewan	**–**	(55)
Advances from the Province of Saskatchewan	**200**	–
Debt discount and issue costs	**(2)**	–
Contributions in aid of construction	**16**	9
Proceeds from issuance of non-recourse debt	**91**	–
Long-term payables and other	**(1)**	(2)
Cash provided by (used in) financing activities	**268**	(34)
Increase in cash and cash equivalents	**135**	23
Cash and cash equivalents, beginning of year	**68**	45
Cash and cash equivalents, end of year	**$203**	$ 68

See accompanying notes

Notes to Consolidated Financial Statements

As at December 31, 2001

Saskatchewan Power Corporation (SaskPower; the Corporation), a provincially owned Crown corporation, generates, purchases, transmits, distributes and sells electricity and related products and services. The Corporation was established by *The Power Corporation Act*, passed on April 8, 1950.

These consolidated financial statements include the accounts of the Corporation's wholly owned subsidiaries, NorthPoint Energy Solutions Inc. (NorthPoint Energy Solutions), Power Greenhouses Inc. (Shand Greenhouse), and SaskPower International Inc. (SaskPower International). All intercompany transactions have been eliminated on consolidation.

By virtue of *The Crown Corporations Act*, 1993, SaskPower has been designated a subsidiary of Crown Investments Corporation of Saskatchewan (CIC), a provincial Crown corporation. Accordingly, the financial results of the Corporation are included in the consolidated financial statements of CIC. As a provincial Crown corporation, SaskPower is not subject to federal income tax, provincial income tax or federal large corporations tax.

1. Accounting Policies

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The timely preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Actual results could differ from those estimates. Corporate accounting policies and practices are subject to examination and approval by the SaskPower Board of Directors and the Board of CIC, both of which are empowered by statute.

The following accounting policies are considered significant:

(a) Cash Equivalents

Cash equivalents are short-term investments that have an average maturity of 90 days or less from the date of acquisition. These investments are carried at cost which approximates market value.

(b) Materials, Fuel and Supplies

Maintenance materials, fuel, supplies and plant repair parts are recorded at average cost. Materials are charged to inventory when purchased and then expensed or capitalized as appropriate, when installed.

(c) Property, Plant and Equipment

Property, plant and equipment includes generation, transmission and distribution facilities, administration and service buildings, and construction and operating equipment. Outlays for these items are capitalized provided there is reasonable certainty they will provide benefits into the future.

Significant renewals and enhancements to existing assets are capitalized only if the service life of the asset is increased, reliability is improved above original design standards or operating costs are reduced by a substantial and quantifiable amount.

Property, plant and equipment is recorded at cost and includes material, allowance for funds used during construction, direct labour and overhead costs.

Assets under construction are recorded as construction in progress until they are operational and available for use and then transferred to fixed assets.

The gain or loss on both the complete and partial disposal of assets is charged to depreciation and amortization when incurred.

Maintenance and repair costs are expensed as incurred.

Depreciation is calculated on a straight-line basis over the estimated service life of the related asset. Depletion on long-term coal properties, including mineral rights, lease fees and transmission lines, is calculated using the unit of production method based on estimated proven reserves. Shorter-term assets including surface rights and location acquisition costs, related to a particular mining property, are depreciated on a straight-line basis over the estimated service life of the related property. Depletion expense has been included in depreciation expense.

Composite estimated service lives for property, plant and equipment classes are:

Generation:			
Coal	30 years	Transmission	43 years
Natural Gas	24 years	Distribution	33 years
Hydro	50 years	Other	14 years
Other	10 years		

(d) Future Asset Removal and Site Restoration Costs

Provisions for the costs, net of expected recoveries, for future asset removal and site restoration arising on the retirement of capital assets are made where reasonably estimable. This provision reflects the estimated cost of decommissioning generation, transmission, distribution and other facilities, as well as the related cost of environmental mitigation, and is included in other liabilities. Provisions are revised periodically in accordance with changes in assumptions and estimates underlying the calculations and with experience arising from the removal of capital assets.

These costs are expensed on a straight-line basis over the expected useful lives of the assets involved.

(e) Allowance for Funds Used During Construction – (AFUDC)

The Corporation capitalizes an allowance for funds used during construction of capital projects that are three months or longer in duration. This amount is capitalized and amortized over the life of the asset. This amount is included within property plant and equipment and deducted from finance charges.

(f) Contributions in Aid of Construction

Contributions in aid of construction are funds received from certain customers toward the costs of service extensions. Contributions are classified as a reduction to property, plant, and equipment and are amortized over the estimated service life of the related asset.

(g) Environmental Costs

Environmental costs which have a future benefit associated with modifications to property, plant and equipment are capitalized and depreciated over the remaining useful life of the related asset. Costs associated with environmental expenditures which relate to an existing condition, caused by past activities, with no benefit to the future, are charged to income in the current period. Liabilities are recorded when the occurrence of an environmental expenditure, related to present or past activities of SaskPower, is considered probable and the costs can be reasonably estimated.

(h) Risk Management and Hedging

From time to time the Corporation uses financial instruments such as foreign exchange forward and option contracts, forward rate agreements, interest rate swaps and caps, cross-currency swaps, coupon swaps, natural gas commodity swaps and option contracts to manage market changes in foreign exchange rates, interest rates and natural gas prices. Cash flow differentials are recognized as income or expense over the lives of the contracts.

(i) Foreign Currency Translation

Transactions denominated in a currency other than Canadian dollars are translated into Canadian dollars by applying exchange rates in effect at the transaction date. At year-end, monetary assets and liabilities denominated in a foreign currency are translated using the exchange rate at that date. Any resulting foreign currency translation gains and losses are included in the consolidated statement of income in the current period. *(See note 2 regarding change in accounting policy.)*

(j) Revenue Recognition

Revenue is recognized on the basis of billings and includes an estimate of electrical deliveries not yet billed at year-end.

(k) Amortization of Debt Discount and Issue Costs

Debt discount and issue costs are amortized on a straight-line basis over the term of the respective debt issue and are included in other assets or liabilities as appropriate.

(l) Employees' Future Benefits

The Corporation provides pension plans for substantially all employees, including a defined contribution pension plan and a defined benefit pension plan. The defined benefit pension plan is governed by *The Superannuation (Supplementary Provisions) Act* and *Regulations* and *The Power Corporation Superannuation Act*. The defined contribution pension plan is governed by *The Public Employees Pension Plan Act* and *Regulations* and certain sections of *The Superannuation (Supplementary Provisions) Act* and *Regulations*.

Under the defined contribution pension plan, the Corporation's obligations are limited to contributions made for current service. These contributions are charged to income when made.

The defined benefit pension plan, substantially closed to new members since 1977, provides benefits based on the average of the highest five years' salary and years of service. At the discretion of the Lieutenant Governor in Council, pensions may be increased annually up to the rate of increase in the Consumer Price Index. The cost of pension benefits under this Plan is actuarially determined using the projected benefit method prorated on service and reflects management's best estimates of future investment performance, wage and salary escalation, age at retirement and future pension indexing up to the rate of inflation. Market rates are used to measure the accrued benefit obligation and fair value to measure its pension plan assets. The estimated transitional asset is being amortized over the average remaining service life of the employees. The excess of the net actuarial gain (loss) over 10% of the greater of the benefit obligation and the fair value of plan assets is amortized over the average remaining service period of active employees.

The Corporation provides defined benefit severance plans for management employees, members of the International Brotherhood of Electrical Workers Union, and members of the Communications, Energy and Paperworkers Union. The costs of severance benefits under these plans is determined using the projected benefit method prorated on service and reflects management's best estimates of future wages, number of eligible employees and average age at retirement. The estimated transitional obligation is being amortized over the average remaining service life of the employees.

The Corporation provides a supplementary superannuation plan for certain manag. ment employees who elect to forgo their entitlement to banked days off. SaskPower's obligation is limited to yearly notional contributions to the plan based upon the employee's salary and an amount allocated for interest on the employee's plan balance.

(m) Joint Ventures

The Corporation has accounted for its joint venture interests in the Cory Cogeneration Station through SaskPower International using the proportionate consolidation method.

(n) Long-Term Investments

The Corporation has accounted for its investment in the Muskeg River Mine Cogeneration Project over which it exerts significant influence using the equity method. The investment is initially recorded at cost and the carrying value adjusted thereafter to include the Corporation's pro rata share of post acquisition earnings of the investment.

2. Change in Accounting Policy (in millions)

Prior to 2001, SaskPower deferred and amortized unrealized foreign currency gains and losses on long-term monetary items on a straight line basis over the remaining life of the asset or liability. In 2001, SaskPower adopted the revisions to CICA Handbook Section 1650 "Foreign Currency Translation" which requires unrealized foreign currency gains and losses to be included in the consolidated statement of income in the current period. This change was applied retroactively with the restatement of comparative figures.

This change in accounting policy impacted the financial results in 2001 resulting in a $31 increase in finance charges, a $31 million decrease to net income and a $31 adjustment to reinvested earnings. The cumulative impact on reinvested earnings as of December 31, 2001 is $152.

The impact of this change in accounting policy in prior years was:

(in millions)	2000	1999
2000 Annual Report		
Finance charges	$ 138	$ 155
Net income	126	114
Other assets	127	117
Reinvested earnings	588	531
2001 Annual Report with prior years restated		
Finance charges	$ 156	$ 95
Net income	108	174
Other assets	6	14
Reinvested earnings	467	428
Impact of accounting change		
Finance charges	$ 18	$ (60)
Net income	(18)	60
Other assets	(121)	(103)
Reinvested earnings	(121)	(103)
Canadian dollar, beginning of year	U.S. 69.29¢	U.S. 65.23¢
Canadian dollar, end of year	U.S. 66.66¢	U.S. 69.29¢
Change in value of Canadian dollar	U.S. (2.63¢)	U.S. 4.06¢

3. Depreciation and Amortization (in millions)

	2001	2000
Depreciation expense	$164	$159
Amortization of contributions in aid of construction	(8)	(8)
	$156	$151

4. Taxes (in millions)

	2001	2000
Grants in lieu of taxes to 12 cities	$13	$12
Capital tax paid to the Province of Saskatchewan	13	12
	$26	$24

The amount of cash paid for grants in lieu of taxes was $12 (2000 – $11) and capital tax $12 (2000 – $11).

In addition to the above, SaskPower collected a municipal surcharge on behalf of 440 Saskatchewan cities, towns, and villages from customers and remitted $32 (2000 – $30) in lieu of taxes to these local governments pursuant to Section 36 of *The Power Corporation Act*. Also in 2001, SaskPower paid $13 (2000 – $10) in provincial sales tax to the Province of Saskatchewan.

5. Finance Charges (in millions)

	2001	2000 (Restated – Note 2)
Interest on long-term debt	$150	$153
Other interest	11	4
Less:		
Sinking fund earnings	(8)	(19)
Interest income	(5)	(7)
	$148	$131
Foreign exchange losses	$ 44	$ 27
AFUDC	(11)	(2)
	$181	$156

The amount of cash paid for interest expense amounted to $154 (2000 – $155).

6. Cash and Cash Equivalents (in millions)

Included in cash and cash equivalents in 2001 are short-term investments in the amount of $203 bearing interest ranging from 2.14% to 4.49% per annum. Included in cash and cash equivalents in 2000 are short-term investments in the amount of $67 bearing interest ranging from 5.38% to 5.57% per annum.

7. Property, Plant and Equipment (in millions)

	Cost		Accumulated Depreciation		Construction in Progress	
	2001	2000	2001	2000	2001	2000
Generation plant	$2,452	$2,386	$1,086	$1,016	$139	$59
Transmission	659	649	246	230	29	17
Distribution	1,666	1,588	596	549	9	3
Cogeneration plant					79	14
Other	381	359	198	181	14	4
	$5,158	$4,982	$2,126	$1,976	$270	$97
Less:						
Accumulated depreciation	2,126	1,976				
Net book value	$3,032	$3,006				

8. Other Assets (in millions)

	2001	2000 (Restated – Note 2)
Investment in Muskeg River Mine Cogeneration Project	$14	$ –
Cross-currency swaps	23	13
Debt discount and issue costs	1	–
Other assets	33	6
	$71	$19

Muskeg River Mine Cogeneration Project

In 2001, the Corporation, through its subsidiary SaskPower International Inc., acquired an ownership interest in the Muskeg River Mine Cogeneration Project currently under construction. The 170-megawatt natural gas-fired cogeneration facility is located at the Athabasca Oil Sands Project's Muskeg River Mine, north of Fort McMurray, Alberta. The scheduled date of commercial operation is late 2002.

Ownership interests in the Muskeg River Mine Cogeneration Project are as follows:

ATCO Power Canada Ltd.	56%
SaskPower International Inc.	30%
ATCO Resources Ltd.	14%

The Corporation has committed to an equity investment to a maximum of $21. The investment to date is $14. (2000 – nil)

9. Long-term Debt (in millions)

In 2001, SaskPower incurred $200 million in Canadian dollar debt to finance capital projects. It also incurred $91 million in non-recourse debt, through its subsidiary, SaskPower International, to finance the Cory Cogeneration Project. Lenders of this debt have recourse limited to the project's assets.

	2001	2000
Recourse debt	$1,918	$1,661
Non-recourse debt	91	–
	$2,009	$1,661

Long-Term Debt Repayment Schedule and Details of Debt

	2001			2000		
	Principal Outstanding		Average	Principal Outstanding		Average
Years to Maturity	United States Dollars	Canadian Dollars	Interest Rate (%)	United States Dollars	Canadian Dollars	Interest Rate (%)
Advances from the Province of Saskatchewan						
Canadian Dollar Denominated Debt						
1-5 years		$ 252	11.76		$ 203	12.16
6-10 years		140	9.76		189	9.85
21-25 years		340	9.35		340	9.35
26-30 years		200	6.40		–	–
		932	9.43		732	10.26
United States Dollar Denominated Debt						
1-5 years	$ 50	80	6.63	$ 50	75	6.63
6-10 years	194	309	7.13	194	291	7.13
11-15 years	75	119	7.38	75	113	7.38
16-20 years	100	159	9.38	100	150	9.38
21-25 years	200	319	8.50	200	300	8.50
	619	986	7.92	619	929	7.92
Gross recourse debt		1,918			1,661	
Non-recourse debt						
2-25 years		91	7.59		–	–
Total debt		2,009			1,661	
Less sinking fund balances:						
Canadian Dollar balances		(38)			(32)	
United States Dollar balances	(38)	(60)		(30)	(45)	
		(98)			(77)	
Total		$1,911			$1,584	

Advances from the Province of Saskatchewan

Date of Issue	Date of Maturity	Interest Rate (%)	Currency	Outstanding Amount (in millions)
July 20, 1993	July 15, 2003	6.63	United States Dollar	$ 50
March 15, 1993	March 15, 2008	7.13	United States Dollar	194
July 20, 1993	July 15, 2013	7.38	United States Dollar	75
December 20, 1990	December 15, 2020	9.38	United States Dollar	100
July 21, 1992	July 15, 2022	8.50	United States Dollar	200
				$619
May 2, 1983 to December 1, 1989	May 2, 2003 to December 1, 2009	9.12 to 14.06	Canadian Dollar	$392
February 4, 1992	February 4, 2022	9.60	Canadian Dollar	240
May 30, 1995	May 30, 2025	8.75	Canadian Dollar	100
August 8, 2001	September 5, 2031	6.40	Canadian Dollar	200
				$932

Non-recourse Debt

Date of Issue	Date of Maturity	Interest Rate (%)	Currency	Outstanding Amount (in millions)
April 26, 2001	March 31, 2003 to December 31, 2024	7.59	Canadian Dollar	$49
April 26, 2001	September 30, 2004 to June 30, 2026	7.60	Canadian Dollar	$42
				$91

As at December 31, 2001, scheduled debt retirement requirements for the next five years are as follows (in millions):

	2002	2003	2004	2005	2006
Debt retirement	$ –	$154	$59	$74	$51

Sinking Funds

Under conditions attached to certain advances from the Province of Saskatchewan, the Corporation is required to pay annually into sinking funds administered by the Department of Finance, amounts at least equal to 1% of the debt outstanding. As at December 31, 2001, scheduled sinking fund installments for the next five years are as follows (in millions):

	2002	2003	2004	2005	2006
Sinking fund annual contribution	$15	$ 15	$14	$14	$14

10. Other Liabilities (in millions)

	2001	2000
Future asset removal and site restoration costs	$240	$228
Long-term agreements payable	54	54
Debt discount and issue costs	–	1
Other liabilities	6	8
	$300	$291

Future Asset Removal and Site Restoration Costs

Future asset removal and site restoration costs are estimated liabilities for decommissioning facilities and mitigating environmental issues. Due to the long-term nature of the assumptions made in deriving these estimates including the nature of the environmental contamination and the timing and extent of corrective actions, there could be a material adjustment to income in the near-term.

Long-Term Agreements Payable (in millions)

Included in long-term agreements payable is a long-term service contract, signed in 1986, wherein the Corporation purchased certain assets from a customer at a cost of $39 plus interest at 11% per year. The customer is required to purchase a minimum amount of electricity with consumption in excess of this amount applied to outstanding interest and principal at a rate of 85% of the revenue received. The remaining liability is $28 (2000 – $32) and the Corporation expects terms of the agreement will be completed by 2004.

11. Equity Advances

The Corporation does not have share capital. However, the Corporation has received advances from CIC to form its equity capitalization. The advances reflect an equity investment in the Corporation by CIC.

12. Financial Risk Management (in millions)

By virtue of its business operations, the Corporation is exposed to changes in the United States/Canadian dollar exchange rate, interest rates and the price of natural gas. The Corporation utilizes a number of financial instruments to manage these exposures. Financial instruments are not used for trading or speculative purposes. The Corporation mitigates risk associated with these financial instruments through Board approved policies, limits on use and amount of exposure, internal monitoring and compliance reporting to senior management.

The Corporation has an exposure to the United States/Canadian dollar exchange rate primarily through the long-term United States denominated debt that has been incurred by the Corporation. With the adoption of the revisions of CICA Handbook Section 1650, net income will be more directly subject to annual fluctuations in currency translation. Current hedge positions offer protection from fluctuations on a portion of the Corporation's debt that is due in 2003 and 2008. Further opportunities to balance the risk of currency fluctuations against the long-term debt will be reviewed.

The Corporation is exposed to gas price risk through gas purchased for its gas-fired power plants and through the gas purchased for use in certain power purchase agreements. As at December 31, 2001, the Corporation had entered into a series of natural gas price hedges to manage the price of natural gas.

Financial Instruments

The fair value of the Corporation's financial instruments reflect market estimates of the amount that the Corporation would pay or receive to terminate contracts at the end of the year. They are not a result of market transactions. Changes in assumptions, economic conditions and other factors could cause significant changes in the fair value estimates. The following summarizes the fair value of the Corporation's financial instruments at year-end.

As at December 31, 2001	**Notional Principal**		**Fair Value Asset (Liability)**		**Repricing or Maturity Date**
	United States Dollars	**Canadian Dollars**	**United States Dollars**	**Canadian Dollars**	
Coupon swaps	**$158**	**$225**	**$ 2.2**	**$ 3.4**	**2002-2003**
Cross-currency swaps	**112**	**155**	**14.2**	**22.6**	**2003-2008**
Foreign exchange contracts	**6**	**9**	**–**	**0.1**	**2002**
Natural gas contracts	**–**	**–**	**–**	**(14.8)**	**2002**
Total	**$276**	**$389**	**$16.4**	**$11.3**	

As at December 31, 2000	Notional Principal		Fair Value Asset (Liability)		Repricing or Maturity Date
	United States Dollars	Canadian Dollars	United States Dollars	Canadian Dollars	
Coupon swaps	$158	$225	$1.5	$ 2.2	2002-2003
Cross-currency swaps	112	155	7.4	13.1	2003-2008
Foreign exchange contracts	4	6	–	(0.1)	2001
Natural gas contracts	–	–	–	1.5	2001-2002
Total	$274	$386	$8.9	$16.7	

The following is a comparison of the balance sheet carrying values and fair values of other assets, long-term agreements payable, debt and sinking funds.

As at December 31	**2001**		2000	
	Asset (Liability)		Asset (Liability)	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Long-term debt	**$(1,918)**	**$(2,289)**	$(1,661)	$(1,988)
Non-recourse debt	**(91)**	**(91)**	–	–
Sinking funds	**98**	**101**	77	77
Long-term agreements payable	**(54)**	**(59)**	(54)	(59)
Cross-currency swaps	**23**	**23**	13	13

Fair values are determined as follows:

(a) coupon swaps, cross currency swaps, foreign exchange contracts, natural gas contracts and sinking funds are valued at closing year-end market rates;

(b) long-term debt instruments are valued at year-end market prices for similar instruments;

(c) long-term agreements payable are valued at the present value of future cash flows discounted at SaskPower's weighted average cost of capital; and

(d) other financial instruments including cash and cash equivalents, accounts receivable and unbilled revenue, accounts payable and accrued liabilities and dividends payable approximate fair value due to the short period to maturity.

Credit Risk

Credit risk is the risk that one party to a transaction will fail to discharge an obligation and cause the other party to incur a financial loss. Concentrations of credit risk relate to groups of customers or counterparties that have similar economic or industry characteristics that cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

SaskPower's credit risk relates to customer accounts receivable and unbilled revenue, short-term investments, and counterparties to financial hedges and commodity transactions. Customer accounts receivable and unbilled revenue is diversified among many residential, farm, and commercial customers. In addition, the Corporation maintains strict credit policies and limits in respect to short-term investments and counterparties to financial and commodity transactions.

13. Commitments and Contingencies (in millions)

(a) At December 31, 2001, the Corporation had committed in the amount of approximately $142 (2000 – $162) for construction materials, equipment, financial instruments and contracts and services not completed at that time. The Corporation has entered into power purchase agreements expected to cost $3,000 until 2027 and provide approximately 440 megawatts of electrical power annually. At 2001 prices, the Corporation also had forward commitments of $1,777 (2000 – $1,857) extending up to 23 years for coal contracted for future minimum deliveries.

Included in the forward coal contract note above are two promissory notes due in 2003 and 2004 arising from the sale of two draglines and payments on certain leased mining equipment which was assumed by the purchaser of a mining operation which end 2014.

(b) As at December 31, 2001, the Corporation, through its subsidiary in SaskPower International, had agreed to spend $39 (2000 - $98) for construction materials, equipment and contracts and services not completed at that time in respect of the Cory Cogeneration Station. The scheduled operation date for the facility is late 2002.

(c) The Corporation has committed through its subsidiary, SaskPower International, to an equity investment to a maximum of $21 in respect of the Muskeg River Mine Cogeneration Project. The investment to date is $14. The scheduled operation date for the facility is late 2002.

(d) Due to the size, complexity, and nature of SaskPower operations, various legal matters are pending. In the opinion of management these matters will not have a material effect on SaskPower's consolidated financial position or results of operations.

(e) The Corporation has guaranteed $8 of energy savings to a customer through SaskPower's energy performance contracts. An energy performance contract is a comprehensive facility improvement program designed to enhance the facilities of the customer while permanently reducing utility costs. These guarantees are offset by third party guarantees to SaskPower that ensure the energy savings are realized. The Corporation does not expect any exposure under these guarantees in 2002.

14. Joint Ventures (in millions)

Cory Cogeneration Station

In 2000, the Corporation, through its subsidiary SaskPower International, entered into a 50% joint venture investment with ATCO Power Canada Ltd. to construct and operate a 228-megawatt natural gas-fired cogeneration plant near Saskatoon.

The Corporation holds a 50% interest in the Cory Cogeneration Funding Corporation (CCFC). CCFC was incorporated pursuant to the Saskatchewan Business Corporations Act (Saskatchewan) effective November 19, 1999 and was registered with the Province of Alberta on December 18, 2000. CCFC is a special purpose company established by the Corporation and ATCO Power Canada Ltd. (the Owners) to borrow long-term, non-recourse debt to finance the construction of the Cory Cogeneration Station. Following completion of the project, CCFC will act as agents for the Owners, receiving revenues, disbursing costs, including debt service and distributing proceeds to the Owners.

The Corporation's proportionate interests in the joint ventures are summarized below:

	2001	2000
Balance Sheet		
Current assets	$21	$ 1
Current liabilities	(9)	(1)
Construction in progress	79	16
Non-recourse long-term debt	(91)	–
Investment in joint venture	$ –	$16
Statement of cash flows		
Operating activities	$ –	$ –
Investing activities	(55)	(14)
Financing activities	75	15
Increase in cash position	$20	$ 1

Current assets include cash of $21 which is only available for use within the joint ventures (2000 – $1).

15. Related Party Transactions (in millions)

Included in these financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to the Corporation by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as "related parties").

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms. These transactions, and amounts outstanding at year-end, are as follows:

	2001	2000
Accounts receivable and unbilled revenue	$ 3	$ 3
Accounts payable and accrued liabilities	6	8
Interest payable – Province of Saskatchewan	49	44
Revenue	51	43
Capital, operating, maintenance and administration expenses	41	35

Other amounts due to/from related parties and the terms of settlement are described separately in these consolidated financial statements and notes thereto.

16. Employees' Future Benefits (in millions)

Defined Benefit Pension Plan

The Corporation sponsors a defined benefit pension plan and uses the balance sheet date as at September 30 as the measurement date.

An annual actuarial valuation of the defined benefit pension plan showed that the Plan had an actuarial surplus in respect of past service, as follows:

	2001	2000
Plan assets		
Fair value at beginning of year	$739	$661
Actual return on plan assets	(36)	113
Funding contributions	2	3
Benefits paid	(38)	(38)
Fair value at end of year	$667	$739
Accrued benefit obligation		
Balance at beginning of year	$628	$631
Current service cost	7	6
Interest cost	41	42
Benefits paid	(38)	(38)
Actuarial gains	–	(13)
Balance at end of year	$638	$628
Funded status – plan surplus	$ 29	$111
Unamortized net actuarial (gain) loss on plan assets	12	(79)
Unamortized transitional asset	(28)	(33)
Accrued benefit assets/(liability)	$ 13	$ (1)
Current service cost	$ 5	$ 5
Interest cost	41	42
Expected return on plan assets	(55)	(49)
Amortization of transitional asset	(5)	(5)
Net benefit plan expense	($ 14)	$ (7)

The significant actuarial assumptions adopted in measuring the Corporation's accrued benefit obligations at September 30 are:

	2001	2000
Discount rate	**6.75%**	6.75%
Expected long-term rate of return on plan assets	**7.60%**	7.60%
Rate of compensation increases	**2.75%**	2.75%
Remaining service life (years)	**6.99**	7.92
Long-term inflation rate	**3.00%**	3.25%
Assumptions for ad hoc increases	**50% of CPI**	50% of CPI

Changes in future conditions may require a material change in the present value of the accrued benefit obligation.

Defined Contribution Pension Plan

Under the defined contribution pension plan, the Corporation's obligations are limited to the contributions for current services. These contributions are charged to income when made.

The net expense for the defined contribution pension plan is as follows:

	2001	2000
Defined contribution pension plan	**$6**	$5

Other Benefit Plans

Other benefit plans include a defined benefit severance plan for management employees, members of the International Brotherhood of Electrical Workers Union and members of the Communications, Energy and Paperworkers Union and the supplementary superannuation plan.

	2001	2000
Present value of accrued benefits	**$38**	$37
Accrued benefit liability	**21**	19
Benefits paid	**5**	4
Net expense	**7**	7

The significant actuarial assumptions adopted in measuring the Corporation's accrued benefit obligations at September 30 are:

	2001	2000
Discount rate	**6.75%**	6.75%
Rate of compensation increases	**3.00%**	2.50%
Remaining service life (years)	**12.59**	13.20

17. Comparative Figures

Certain amounts for the prior year have been reclassified to conform with current year financial statement presentation. The financial statements as at December 31, 2000 and for the year then ended, prior to adjustment for the change in accounting policy for foreign currency translation as described in Note 2, were audited by other auditors who expressed an opinion without reservation on those statements in their report dated February 7, 2001.

Five-Year Financial Summary

(in millions)

	2001	2000	1999	1998	1997
Net income:					
Revenue					
Domestic	**$ 994**	$ 952	$ 915	$ 919	$ 894
Export	**109**	128	42	21	8
Other	**23**	21	20	18	15
	1,126	1,101	977	958	917
Expense					
Fuel and purchased power	**468**	384	251	235	199
Operating, maintenance and administration	**254**	264	281	238	214
Depreciation and amortization	**156**	151	137	131	132
Taxes	**26**	24	24	23	23
Future asset removal and site restoration	**12**	14	15	22	41
	916	837	708	649	609
Income before finance charges	**210**	264	269	309	308
Finance charges					
Interest expense and other	**148**	131	150	159	170
Foreign exchange (gains)/losses	**44**	27	(52)	57	34
Allowance for funds used during construction	**(11)**	(2)	(3)	(1)	(4)
	181	156	95	215	200
Net income	**$ 29**	$ 108	$ 174	$ 94	$ 108
Equity	**$1,140**	$1,127	$1,088	$ 977	$ 960
Property, plant and equipment:					
Property, plant and equipment	**$5,158**	$4,982	$4,832	$4,673	$4,557
Accumulated depreciation	**(2,126)**	(1,976)	(1,828)	(1,693)	(1,573)
Contributions in aid of construction	**(231)**	(224)	(222)	(222)	(215)
Property, plant and equipment, net	**2,801**	2,782	2,782	2,758	2,769
Construction in progress	**270**	97	47	36	35
	$3,071	$2,879	$2,829	$2,794	$2,804
Growth over prior year (%)	**6.67**	1.77	1.25	(0.36)	(0.64)
Capital expenditures ($)	**364**	210	185	137	160
Debt at December 31:					
Recourse debt	**$1,918**	$1,661	$1,680	$1,864	$1,909
Non-recourse debt	**91**	–	–	–	–
Gross debt	**$2,009**	$1,661	$1,680	$1,864	$1,909
Net debt	**$1,911**	$1,584	$1,543	$1,636	$1,687
Sources and (uses) of cash:					
Cash provided by operating activities	**$ 245**	$ 266	$ 265	$ 283	$ 270
Investing activities, net of interest capitalized	**(378)**	(209)	(182)	(136)	(141)
Cash provided by (used in) operating and investing activities	**(133)**	57	83	147	129
Cash provided by (used in) financing activities	**268**	(34)	(62)	(202)	(128)
Increase (decrease) in cash position	**$ 135**	$ 23	$ 21	$ (55)	$ 1

Corporate Governance

What is Corporate Governance?

The process and structure used to direct and manage the business and affairs of the Corporation with the objective of enhancing shareholder value is commonly referred to as corporate governance.

How Corporate Governance is Effected at SaskPower

SaskPower is governed by *The Power Corporation Act* and is subject to the provisions of *The Crown Corporations Act*, 1993, which gives the Crown Investments Corporation (CIC) broad authority to set the direction of the Corporation.

Where required by legislative policy directive, SaskPower submits performance management and investment decisions for review and approval by CIC and the provincial Cabinet.

The control actually exercised by CIC is determined, within these broad legislative powers, by policy set by Cabinet which established that Crowns must be able to make operational decisions within a broad policy framework set by CIC and the provincial Cabinet.

Role of the SaskPower Board of Directors

The SaskPower Board of Directors (the Board) is responsible for setting direction, monitoring and reporting achievement, and analyzing, evaluating and taking corrective action for the Corporation.

Specific responsibilities of the Board include:

- approving the Corporation's overall strategic plan, operating goals, budget and business plans;
- participating in identifying business risk and overseeing the implementation of appropriate systems to achieve a balance between risks incurred and potential returns; and
- appointing, monitoring and evaluating the performance of senior management.

The Board has outlined those items requiring its approval in a document called "Matters Requiring Board Approval" including items of a significant nature not done in the ordinary course of business.

The Board meets as scheduled throughout the year and participates in an annual strategic planning session.

The Board also uses the following standing committees to meet its responsibilities: the Audit and Finance Committee; Environment, Occupational Health and Safety Committee; Human Resources/Compensation Committee; and the Governance Committee. Committees meet separately and independently of Board meetings.

Each committee has terms of reference that define the objectives, scope, duties and responsibilities of the committee. The terms of reference are consistent with best practices in corporate governance, reviewed by the Governance Committee and approved by the Board.

Board Appointment, Composition and Training

The Lieutenant Governor in Council appoints members to the Board as defined in *The Power Corporation Act*. The Board consists of nine (9) external directors not related to the management of the Corporation; two (2) directors appointed as representatives of the IBEW and CEP unions; and the President and CEO of the Corporation. The Board of Directors is chaired by one of the external directors.

SaskPower provides extensive background information about the Corporation's history, mission and values to its Directors. CIC provides ongoing education regarding Board processes and best practices. In 2001, three training sessions were offered which encompassed leadership, governance, board dynamics and building sustainable strategies.

Role of Management

Board members are not normally involved in the day-to-day management of the Corporation. The Board has entrusted operating decisions to the executive officers of the Corporation with the expectation that management will:

- develop a vision and philosophy for the Corporation and strategic and operational plans to achieve the vision;

- establish, prioritize and achieve Corporate strategies, goals, budgets, business plans and performance indicators; and
- design and implement policies and procedures to ensure the integrity of the Corporation's internal control and management information systems.

Specific Committee Activities in 2001

Audit and Finance Committee:

During the year ended December 31, the Audit and Finance Committee met its objectives as described in the terms of reference by:

- reviewing the financial statements and annual reports of the Corporation and its subsidiaries;
- reviewing and discussing with appropriate external and internal audit personnel, reports on internal controls within the Corporation. These discussions and reviews confirmed appropriate controls were in place and, where improvements to controls were required, action was undertaken by management; and
- reviewing the risk management policies and procedures of the Corporation used to manage financial and operational risk.

Environment, Occupational Health and Safety Committee:

The Environment, Occupational Health and Safety Committee supports the Board of Directors by monitoring the Corporation's management of environmental, health and safety risks, liabilities, policies, practices and procedures. During the year ended December 31, the Environment, Occupational Health and Safety Committee performed duties set out in the terms of reference by:

- reviewing the safety performance management system, the ISO 14001 environmental audits, and the environmental emergency response plans which were designed to prevent injury to employees, the public and the environment; and
- reviewing current and future environmental legislation that may influence the current and future operations of the Corporation.

Governance Committee:

The Governance Committee provides guidance regarding the governance processes of the Board. Specific duties and responsibilities include:

- monitoring the functioning of the Board and Committees of the Board;
- reviewing and recommending qualified potential candidates for appointment to the Board; and
- recommending modifications to Committees of the Board regarding size, membership and chairs.

During the year ended December 31, the Governance Committee recommended:

- changes to the terms of reference for all committees ensuring the efficient operation of each committee;
- developing and recommending a communication strategy for the Board of Directors; and
- new appointments to the Board of Directors and specific Board Committees ensuring appropriate leadership and expertise is available to meet the current and future challenges facing SaskPower.

Human Resources/Compensation Committee:

The role of the Human Resources/Compensation Committee is to assist the Board of Directors in monitoring the Corporation's human resource and compensation policies and procedures. The following specific responsibilities were conducted in 2001 by reviewing:

- the President and CEO's performance for 2000 and objectives for 2001; and
- compensation and benefit plans for all employee groups within the Corporation.

Corporate Process Improvement Committee:

The Corporate Process Improvement Committee provides support to the Corporation's Corporate Process Improvement Program (CPIP). CPIP was instituted to position SaskPower to fully realize the benefits resulting from the implementation of the Delta Project and the SAP Integrated System. The Corporate Process Improvement Committee, consisting of members of the Board working with senior management, reviews status reports on the progress of specific program initiatives and receives updates pertinent to the tracking of Delta Project and SAP benefits.

2001 SaskPower Board of Directors (at December 31, 2001)

David T. Barnard
Chair of the Board
President
University of Regina
Regina, Saskatchewan

Colleen Bailey
Partner, Secretary-Treasurer
Bailey's Funeral Home Ltd.
Yorkton, Saskatchewan

Vernon Bellegarde
General Manager
Digital Print Centre
Balcarres, Saskatchewan

Larry Braun
President
CEP, Local 649
Saskatoon, Saskatchewan

Neil Collins
President
IBEW, Local 2067
Estevan, Saskatchewan

Al Macatavish
Retired Vice-President
Manitoba Hydro
Winnipeg, Manitoba

Donald Mintz
Chartered Accountant
Mintz & Wallace
Regina, Saskatchewan

V. Lynne Pearson
Dean, College of Commerce
University of Saskatchewan
Saskatoon, Saskatchewan

Patricia Quaroni
Commercial Lawyer
and Partner
Olive Waller Zinkhan
and Waller
Regina, Saskatchewan

Keith A. Rissling
Chartered Accountant
Owner and Manager
K.A. Rissling & Associates
Saskatoon, Saskatchewan

Mel Watson
Owner
Watson Tractor
Regina, Saskatchewan

John Wright
President and
Chief Executive Officer
SaskPower
Regina, Saskatchewan

Neil Henneberg
Corporate Secretary
Crown Investments
Corporation of Saskatchewan
Regina, Saskatchewan

J. Milton Fair, *SaskPower Board Chair, passed away on May 8, 2001. He had served as a distinguished member of our Board since January 1998. Mr. Fair was a wise and caring individual and a great leader for the corporation. We remain thankful for the direction he helped set for SaskPower.*

Committees of the Board of Directors (at December 31, 2001)

Audit & Finance Committee
Donald Mintz, Chair
Colleen Bailey
Vernon Bellegarde
Larry Braun
V. Lynne Pearson
Keith A. Rissling

Environment, Occupational Health & Safety Committee
Vernon Bellegarde, Chair
Colleen Bailey
Neil Collins
Mel Watson

Human Resources/ Compensation Committee
Mel Watson, Chair
David T. Barnard
Donald Mintz
Patricia Quaroni

Governance Committee
Patricia Quaroni, Chair
David T. Barnard
Neil Collins
Keith A. Rissling

Corporate Process Improvement Committee
David T. Barnard, Chair
Donald Mintz
V. Lynne Pearson

GLOSSARY

Capacity
The greatest load that can be supplied by a generating unit, power station or an entire provincial grid system.

Circuit
A power line or cable through which electric energy flows.

Circuit Kilometres
The sum of the number of circuits times the length of the power line.

CO_2
Carbon dioxide, one of the greenhouse gases believed to be a cause of global warming. Carbon dioxide is produced in coal-fired electricity generation.

Cogeneration
The simultaneous generation of electricity and useful heat or steam. The heat could be put to use in an industrial process or to heat a facility or community. The electricity could be used by the owner or sold to SaskPower.

Demand
The rate at which electric energy is delivered at a given instant or averaged over a period of time. It is measured in kilowatts, megawatts, etc.

Distribution
Process of moving electric energy at lower voltages from major substations to customers.

Diversity
For SaskPower, a diverse workforce would reflect the characteristics of our customer base. The corporation is pursuing several employment equity initiatives to develop a more diverse workforce.

Gigawatt Hour (GW.h)
A unit of bulk energy; 1,000,000 kilowatt hours.

ISO 14001
The ISO 14000 series is a family of environmental management standards developed by the International Organization for Standardization. SaskPower is the first electric utility in Canada to achieve corporate-wide ISO 14001 registration.

Kilovolt (kV)
A unit of pressure, or push, of an electric current; 1,000 volts.

Kilowatt (kW)
A unit of bulk power; 1,000 watts.

Kilowatt Hour (kW.h)
A unit of bulk energy; 1,000 watt hours. The measurement is generally used for billing residential customers.

Load
The amount of electric power or energy consumed by a particular customer or group of customers.

Megawatt (MW)
A unit of bulk power; 1,000 kilowatts. The unit generally used to describe the output of a commercial generator.

Megawatt Hour (MW.h)
A unit of bulk energy; 1,000 kilowatt hours.

Peak Demand
The maximum power demand recorded by a customer, group of customers or the entire system at a precise time.

Pole Kilometres
The linear distance along a power line.

Rate Rebalancing
A process bringing the electrical rates charged to different customer categories closer to the cost of service. For SaskPower, rebalancing requires negotiating rates for large-volume customers, while reducing the subsidy for farm and residential customers.

SAP
Stands for Systems, Applications and Products in Data Processing. A software solution that supports integrated business processes.

Seasonal Gross Peak
The maximum power demand supplied from all sources of energy on the system, as measured over a winter season – October 1 to March 1.

Sustainable Development
Development that ensures that the use of resources and the environment today does not damage prospects for their use by future generations (National Task Force on Environment and Economy, 1987).

Transmission
Process of moving electric power in bulk at higher voltages from the source of supply to distribution centres.